CHAPTER 1

BUDGETARY AND CERTAIN RELATED REQUIREMENTS

The Ohio Constitution provides certain local governments the power to tax. The budgetary process is a plan to coordinate expenditures and resources. The State Legislature has adopted laws to control expenditures using tax budgets and appropriations.

The Auditor of State believes budgeting, properly used, provides the most important monitoring control a government has. *It is impossible to incur a cash deficit if a government complies with the budgetary law!* Additionally, the budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations.

Appendix C to the *Ohio Compliance Supplement* includes Ohio Rev. Code 5705 (i.e., the budget law) definitions of "subdivision," "taxing authority," and "taxing unit." You should refer to these definitions from Ohio Rev. Code Section 5705.01, to determine the applicability of Chapter 1 requirements to the entity you are auditing. Appendix F includes matrices showing the applicability of this chapter's requirements to various governmental types.

Interim[1] testing of budgetary compliance is no longer required. Auditors need only test for compliance such as (1) over expenditure of appropriation or (2) appropriating more than estimated resources as of the fiscal year end.

When testing compliance related to funds, such as whether appropriations exceeded estimated resources or budgetary expenditures exceeded appropriations, etc. consider the following:

- Material misstatements do not result directly from noncompliance. (Noncompliance normally requires disclosure as finance-related noncompliance, but does not require adjusting the budgetary financial presentation.)
  - Therefore, there is no need to obtain high assurance from this test (i.e. no requirement to test all or even most funds).
- We suggest you test the general and other major / large funds and perhaps rotate a few smaller funds each audit.
  - However, normally scanning the fund-accounting records and listing noncompliance as of year end is not time consuming. This should be a reliable test if evidence suggests the auditee accurately records all budgetary amendments into its accounting system, and if the system reports negative variances.
  - Also consider including funds for which we reported noncompliance in the prior audit.
- There is rarely a need to "recreate" the budget for all funds in the working papers. That is, we do not require a spreadsheet listing all funds' estimated resources, appropriations (and amendments thereto), receipts, disbursements, and encumbrances.

[1] "Interim" in this context means tests of selected calendar dates from within the audited year. It does not relate to whether the auditor performs the testing prior to the balance sheet date.

Legal Level of Budgetary Control

Government Accounting, Auditing, and Financial Reporting defines the "legal level of budgetary control" as "the level at which spending in excess of budgeted amounts would be a violation of law." In Ohio, the legal level of control is the level at which the local government's legislative authority passes the appropriation measure.

Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for "subdivisions" other than schools: "Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, division, and, within each, the amount appropriated for personal services."

Ohio Administrative Code 117-6-02 requires schools to appropriate at least at the fund level. Governments may adopt more stringent legal levels of budgetary control if they wish.

Because Ohio Admin. Code 117-2-02(C)(1) permits governments to adopt more stringent legal levels of control than the aforementioned laws require, it is possible for the level to vary from entity to entity, or even from fund to fund within an entity. However, once established by the local government, the legal level of control should be the same throughout the fiscal year. As such, this is the level auditors should use to test compliance.

Governments following generally accepted accounting principles or an Other Comprehensive Basis of Accounting (OCBOA) must comply with the following budgetary presentation requirements from GASB Codification 2400.103 -- .105:

> .103 Governments may present the budgetary comparison schedule using the same format, terminology, and classifications as the budget document, or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances. Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to RSI) that reconciles budgetary information to GAAP information, as discussed in this section and in Section 1700. Notes to RSI should disclose the budgetary basis of accounting and excesses of expenditures over appropriations in individual funds presented in the budgetary comparison, as discussed in Section 2300, "Notes to Financial Statements," paragraph .106.5 [NCGAI 6, ¶5; GASBS 34, ¶131; GASBS 37, ¶19]
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> .104 Where financial statements prepared in conformity with GAAP do not demonstrate finance-related legal and contractual compliance, the governmental unit should present such additional schedules and narrative explanations in the comprehensive annual financial report as may be necessary to report its legal compliance responsibilities and accountabilities. In extreme cases, preparation of a separate legal-basis special report may be necessary. [NCGAS 1, ¶12]
> Comprehensive Annual Financial Reports
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> .105 The comprehensive annual financial report (CAFR) should include budgetary comparison schedules for individual nonmajor special revenue funds and other governmental funds of the primary government (including its blended component units). [NCGAS 1, ¶139 and ¶155, as amended by GASBS 14 and GASBS 34, ¶130]

There is no prescribed minimum for reporting budget-versus-actual information for governments using the Auditor of State's cash-basis financial reports. These reports routinely present this information at an aggregated level (i.e. combined fund type) as footnote disclosures. However, auditors should still test legal compliance at the legal level of budgetary control.

Other sources of Guidance: In addition to this OCS Chapter, Section D.IV of the AOS' *Ohio Township Handbook* and Chapter 3 of the AOS' *Village Officer's Handbook* include many questions and answers related to RC 5705 requirements. You can access these publications at www.auditor.state.oh.us then click on *Publications*.

Also note: Virtually all Chapter 5705 requirements applicable to *subdivisions* apply to municipalities that have adopted a charter under Article XVIII, § 7 of the Ohio Constitution. (See 5705.01(A) & (B).)

Compliance Requirements **Page**

Section A: General Budgetary Requirements

1-1 Compliance Requirement: Ohio Rev. Code Section 5705.34 Certifying tax levies.

Summary of Requirement: Each taxing authority is to pass an ordinance or resolution to authorize the necessary tax levies. Each such authority is to certify the levies to the county auditor before October 1st (April 1 for school districts), unless a later date is approved by the tax commissioner.

If the government is a Township Board of Park Commissioners that is appointed by the Board of Township Trustees and oversees a Township Park District that contains only unincorporated territory, see Division (C) of Ohio Rev. Code Section 511.27.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Read the minutes to determine if the taxing authority has authorized the necessary rates and certified them to the county auditor on or before the required date.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-2 Compliance Requirement: Ohio Rev. Code Section 5705.36 Certification of available revenue.

Summary of Requirement: On or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

Except, a taxing authority shall *exclude* the following from unencumbered fund balances:
- Budget stabilization reserves [§ 5705.13, 5705.29(G)]
- Nonexpendable trust principal balances and any additions to principal not from the fund's reinvested earnings [§ 5705.131]
- The balance in a township reserve balance account established under section 5705.132 of the Ohio Rev. Code.

The certification for a school district must separately show the amount of any notes and unpaid outstanding expenses that were due prior to June 30 which are to be paid from advancements of property tax settlement money.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Accounting system capable of recording estimates and comparing them to actual results • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Comparisons or Reconciliations of Certified Amounts with Government's Books/Records • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Inspect the copy of the certificate retained by the subdivision showing the total amount from all sources which is available for expenditures and the balances existing at the end of the preceding year.

Through inquiry, knowledge of the client, and review of documents (such as the record of minutes and accounting ledgers), determine whether the client has established any of the reserve balance accounts, or nonexpendable trust funds described.

If reserve balance accounts or nonexpendable trust funds have been established, calculate or inspect the client's or budget commission's calculations that the certification excludes balances in those accounts/funds. (That is, these amounts are not available for appropriation.)

For school districts, calculate or inspect the client's or budget commission's calculations that the certification includes any spending reserve available for appropriation during the current fiscal year.

For school districts receiving an advance on the August property tax settlement, determine through inquiry, inspection of ledgers, vouching, or other such means, whether significant payments were made on notes or outstanding expenses which were due prior to June 30 (since some school districts routinely request advances to take advantage of short-term investment opportunities, you should consider whether these payments could have been made in the absence of the advance, without placing undue distress on the school district).

If such notes or outstanding expenses have been identified, compare the amounts to the amounts separately identified on the school district's copy of the certificate.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-3 Compliance Requirement: Ohio Rev. Code Section 5705.36 - Amended Certificates

Summary of Requirements: ~~5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.~~

5705.36(A)(3) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be greater than the amount included in an official certificate and the legislative authority intends to appropriate and expend the excess revenue, the fiscal officer shall certify the amount of the excess to the commission, and if the commission determines that the fiscal officer's certification is reasonable, the commission shall certify an amended official certificate reflecting the excess. ~~requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue.~~

5705.36(A)(4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.~~requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.~~

5705.36(A)(5) states that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

Ohio Rev. Code § 5705.36 does not require that municipal fiscal officers, school district treasurers and county auditors certify changes to the budget commission so as to obtain an amended certificate of estimated resources which matches actual resources for the year to the penny (a "zero variance"). Noncompliance citations with this provision should not be issued on the basis of a variance between amounts in the most recent amended certificate of estimated resources and the amount of actual resources, unless it appears that the fiscal officer knowingly disregarded a significant variance and that, had a "reduction" certificate been obtained, the effect would have been to prevent the making of expenditures or the incurrence of obligations in excess of actual resources.

Note: *Approval by the budget commission is required for amended certificates; however, because of delays in the process, financial statements generally present amounts from the last certificate for which approval was requested prior to year-end. In light of this, and consistent with guidance provided in AOS Bulletin 97-10, the Auditor of State's Office will use the amounts listed on the last amended certificate of estimated resources requested during the fiscal year for determining compliance, and to support budgeted revenue in budgetary statements. That is, we will not consider amended certificates requested / approved after fiscal year end to be valid budgetary actions. Be aware, however, that noncompliance issues may be hidden by presenting the last requested certificate rather than the one in effect at the time the final appropriations were passed. Therefore, auditors may use the numbers on the report prepared by the government unless the final amended certificate was used to eliminate material violations.*

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Accounting system capable of recording estimates and comparing them to actual results • Reconciliations of amended certified amounts with amounts recorded in the accounting system • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

For selected funds, compare actual resources (i.e. beginning unencumbered fund balance + actual receipts) to appropriations as of the fiscal year end. If actual resources are less than appropriations, cite 5705.36 for not requesting a reduced certificate ~~and reducing appropriations~~ if it can be determined that the fiscal officer knew of the deficiency and it is material.

Inspect amended certificates of estimated resources for budget commission approval.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-4 Compliance Requirement: Ohio Rev. Code Section 5705.38 Annual appropriation measure.

Summary of Requirements:
5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. This does not apply to school district appropriations.

5705.38(B) provides that a board of education shall pass its annual appropriation measure by the first day of October. If a school district's annual appropriation measure is delayed as permitted by law (see below), the board may pass a temporary measure for meeting the ordinary expense of the school district until it passes an annual appropriation measure.

As discussed in Auditor of State Bulletin 98-012 there are two circumstances when school district certificates/certifications would be issued after October 1:

- A certificate/certification would be issued after October 1 when a school district has borrowed against its spending reserve. This certificate/certification would not be issued until second half personal property taxes are settled.

- A certificate/certification would be issued after October 1 when the delivery of a tax duplicate is delayed under Ohio Rev. Code §323.17 because a subdivision in the county has placed a levy on the November ballot which, if approved, will go on the current tax list and duplicate.

If a school district is in either of these two situations, passage of the annual appropriation measure should be delayed until the necessary certificates/certifications are received.

Legal Level of Control: Minimum Requirements[2]

1. Ohio Admin. Code 117-2-02(C)(1) states in part: "The legal level of control is the level (e.g. fund, program or function, department, object) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Ohio Rev. Code, except school districts and public libraries, the minimum legal level of control is described in Section 5705.38 of the Ohio Rev. Code **(see 2 below)**. For school districts, the minimum legal level of control is prescribed in Rule 117-6-02 of the Administrative Code **(See 3 below)**. For public libraries, the minimum legal level of control is prescribed in Rule 117-8-02 of the Administrative

[2] **We should not recommend that governments adopt the highest level of control the statutes allows.** Appropriating at lower levels than the minimums the ORC or OAC require provides the legislative authority with more control over disbursements. However, appropriating at *very* low levels can significantly increases the volume of appropriation amendments requiring legislative approval as well as possibly requiring additional disbursement codes (more function, object codes, etc.). Conversely, appropriating at higher levels may simplify appropriation measures, but in doing so, the legislative authority effectively delegates more spending decisions to the fiscal officer. The legislative authority should choose the level of control it believes meets its needs to control expenditures. Also, the legislative authority may choose differing levels of control for different funds, *as long as they meet at least the minimum statutory requirements*.

Code **(See 4 below)**. The legal level of control is a discretionary decision to be made by the legislative authority, ***unless otherwise prescribed by statute***."

2. Ohio Rev. Code 5705.38(C) requires the following minimum level of budgetary control for "subdivisions" other than schools: "Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services."[3]

3. Ohio Admin. Code 117-6-02 prescribes the following for school districts' legal level of control: At a minimum, appropriation measures shall be classified to set forth separately the amounts appropriated by fund. The appropriation measure as passed by the school board shall be the legal level of control. This is the level at which compliance with statutory budgetary requirements will be determined. **The AOS recommends that boards of education pass appropriations at a more detailed level. This is, however, a discretionary decision for the board of education based on the degree of control the**

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[3] ~~**IMPORTANT:** The 2006 OCS included the paragraph below:~~

> ~~*"Governments may have appropriated at higher levels than 5705.38 prescribes, based on guidance this office previously issued, such as in Bulletin 97-10. Therefore, we should not issue noncompliance findings to governments that relied on this advice. Instead, we should inform them they should correct this matter prior to preparing their next original appropriation."*~~

~~Because we issued the italicized guidance in the March 2006 *Supplement*, our staff has presumably informed many of the noncompliant governments of the need to revise their level of control when they adopted 2007 appropriations. If these governments did not heed the advice, we should normally cite noncompliance with the level of control ORC 5705.38 requires, for fiscal years ending on or subsequent to December 31, 2007.~~

~~However,~~ Staff should exercise judgment in determining whether to cite these governments. The following provides some guidance in determining this:

- Because OAC 117-6-02 permits school districts to use the fund as their level of budgetary control, we presume noncompliance will not be an issue for school districts.

- Many of our smaller audits are on a two-year cycle. Therefore, we may not have communicated this requirement to some of them yet. We should not cite them (or any other taxing district) until we audit the fiscal year following the year we inform them of the requirement.

- Working papers or management letters should have documented that we communicated the requirement. If management insists we did not previously communicate the requirement and we have no documentation supporting this communication, you can defer citing this deficiency for another year. However, please assure the current audit working papers and management letter document this communication.

Because other facts and circumstances may arise regarding this matter, or if you are unsure whether citing a taxing district for this matter is fair, please consult with your regional chief auditor. If the regional chief is unsure, they can present the facts and circumstances to their Accounting & Auditing Support representative.

board of education wishes to maintain over the financial activity of the school district.

4. Ohio Admin. Code 117-8-02 The library's legislative body shall adopt appropriation measures. These measures establish the legal level of control.

5. Ohio Admin. Code 117-2-02(C)(1) also states in part: all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances.

Amounts / Funds Not Subject to Budgeting:

- The nonexpendable principal of nonexpendable trust funds.[4] Appropriating nonexpendable principal would authorize the fiscal officer to spend the principal in violation of the trust agreement. [5705.36(A)]
- Budget stabilization reserves [§ 5705.13, 5705.29(G)]
- The balance in a township reserve balance account established under section 5705.132 of the Ohio Rev. Code.
- For some time, AOS policy has been that agency funds do not require budgeting. Agency funds account for money a government holds in an agency capacity on behalf of another person or entity. Therefore, a government has minimal discretion in spending this money. Accordingly, the legislative body need not authorize a purpose for spending the money.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Accounting system capable of recording appropriations and comparing them to actual results • Reconciling appropriation totals to totals recorded in the accounting system. • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

[4] The ORC still refers to *nonexpendable trust funds*. GASB 34 revised the fund types, and now requires classifying *nonexpendable trust* funds as either *private purpose trust* or *permanent funds*. See AOS Bulletin 2005-05. GASB 34 does not affect this ORC requirement. That is, this ORC requirement now applies to private purpose trust and to permanent funds.

Suggested Audit Procedures - Compliance (Substantive) Tests:

Read the minutes and determine if an annual appropriation measure has been passed by the required date.

If a school district has delayed adoption of an annual appropriation measure, discuss the reasons for the delay and trace to supporting documentation.

Scan appropriation measures to determine whether they meet at least the minimum legal level of control 5705.38(C) prescribes.

Determine if the accounting system "integrates" budgetary data at the legal level of control. This means the accounting system should report appropriations, encumbrances, unencumbered cash balances, and estimated receipts, and should compare budgetary data to actual results.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-5 Compliance Requirement: Ohio Rev. Code Section 5705.39 Appropriations limited by estimated resources.

Summary of Requirements: This section provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Note: If a government fails to receive the county auditor's certifications that appropriations do not exceed estimated resources, governments may present the appropriations passed by the legislative authority on the financial statements. A noncompliance citation is still appropriate if the violation is material. However, no citation should be made if the government requested the county auditor's certificate and the county auditor failed to respond.

As discussed in Auditor of State Bulletin 97- 012, if a local government is participating in a grant or loan program whereby proceeds will be received after the expenditures are incurred, it is possible that if properly budgeted, appropriations for one fiscal year will exceed the available amount on the certificate of estimated resources. As discussed in OCS section 1-7, Ohio Rev. Code §5705.42 makes formal legislative appropriation for certain grants and loans unnecessary. As such, we believe it is equally unnecessary to require a subdivision to seek certification of the amended appropriation measure for purposes of Ohio Rev. Code §5705.39. However, the fiscal officer should record the appropriation amount in the accounting system and include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity. An advance should be used to prevent a negative fund balance. *(School districts are permitted to incur deficit fund balances in their special funds* ***under certain circumstances****. Refer to OCS section 1-19 for additional guidance.)*

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Accounting system reports deficit budgetary balances if appropriations exceed estimated resources • Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files • Comparisons of Proposed Appropriations with Certified Estimated Revenues • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Compare the appropriation measures for selected funds and determine that the appropriations do not exceed the official or amended estimate of resources (estimated revenues plus unencumbered fund balances) as of the fiscal year end. You should base the extent of this testing on your evaluation of controls and the control environment. Audit documentation should describe your reasons for the extent of this test.
Determine whether the county auditor sent a "does not exceed" certificate to the government. A noncompliance citation is appropriate if the violation is material; however, the government may present the appropriations passed by the legislative authority in the budgetary financial statements. *Auditors should not cite the government if a certificate was requested and the county auditor failed to respond.*

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-6 Compliance Requirement: Ohio Rev. Code Section 5705.40 Amending or supplementing appropriations, contingencies.

Summary of Requirements: Any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. "Transfers" * may be made by resolution or ordinance from one appropriation item to another. Subject to certain limitations, the annual appropriation measure may contain an appropriation for contingencies.

Rulings filed in the case of C. B. Transportation, Inc. v. Butler County Board of Mental Retardations, 60 Ohio Misc. 71, 397 N.E.2d 781 (C.P. 1979), as well as Burkholder v. Lauber, 6 Ohio Misc. 152 (1965), held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a local government's governing board would be prohibited from delegating duties statutorily assigned to it, such as the ability to amend appropriations as provided for in Ohio Rev. Code section 5705.40.

Per AOS Bulletin 97-010, budgeted expenditures coincide with either the final appropriations the legislative body passed prior to fiscal year-end or the sum of those final appropriations plus encumbrances carried forward from the prior year. *That is, the AOS does not recognize appropriation amendments retroactive to the prior year.* The statutory budget process codifies what are or should be good management practices. These processes provide a framework that helps management and legislators reasonably control spending.

* "Transfers" in this context mean reallocations of appropriations within a fund. These do not refer to transfers of cash between funds.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Accounting system capable of recording appropriations and comparing them to actual results. • Reconciling appropriation totals to totals recorded in the accounting system. • Policies and Procedures Manuals • Knowledge and Training of personnel • Comparison of Outstanding Encumbrances and Balances to Proposed Amendments • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to		

employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Inquire (or determine from reading the minutes) if amended or supplemental appropriation measures have been passed. If so, inspect the amended certificate executed by the county budget commission.

Inspect the government's records to determine if selected appropriation amendments were accurately and timely posted into an accounting system that integrates budget and actual receipts and disbursements. Base the extent of this testing on the control environment, especially the CFO's competence and dedication to complying with ORC requirements, past errors noted, etc..

Match appropriations amendments, supplements and intrafund appropriation "transfers" recorded in the accounting system with resolutions or ordinances.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-7 Compliance Requirements: Ohio Rev. Code Sections 5705.38; 5705.41 (A), (B), (C), and (D); and 5705.42 Restrictions on appropriating and expending money.

***Note*:** Auditors should not cite Fiscal Emergency entities under ORC 5705.10 or ORC 5705.41 for operating fund deficits. Rather, auditors should cite entities under ORC 118 (See section 1-10) when they do not adhere to their recovery plan. **Please note this exception applies only to funds other than the general fund that are in a deficit, not to healthy funds[5] of the entity. Therefore, auditors should still test the healthy funds of Fiscal Emergency entities for compliance with step 1-7.**

Summary of Requirements: The authorization of a bond issue is ***deemed an appropriation***[6] of the proceeds of the bond issue for the purpose for which such bonds were issued. No expenditure shall be made from any bond fund until first authorized by the taxing authority. [Section 5705.41(A)].

Similarly, Federal and State grants or loans are "***deemed appropriated*** for such purpose by the taxing authority" as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in process of collection [5705.42].

No subdivision or taxing unit is to expend money unless it has been appropriated. [Section 5705.41(B)].

No subdivision is to expend money except by a proper warrant drawn against an appropriate fund. [Section 5705.41(C)].

No orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury **or in the process of collection**[7] to the credit of an appropriate fund free from any previous encumbrances. [Section 5705.41(D)].[8] [9]

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[5] We interpret "healthy funds" to mean funds with positive cash balances.

[6] "Deemed an appropriation" under this section means the Federal or State government has already appropriated and established the purpose(s) for which a government can spend monies received from Federal or State grants and loans. The taxing authority cannot deviate from this purpose; the taxing authority can only resolve to spend the money for a purpose already prescribed in a contract, grant agreement, loan agreement, etc. Therefore, Federal and State grants and loans received under Ohio Rev. Code Section 5705.42 ***do not*** require formal appropriation by the legislative body. In other words, Ohio Rev. Code Section 5705.42 effectively eliminates an unnecessary appropriation action by the taxing authority. However, Ohio Rev. Code Section 5705.42 directs the fiscal officer to ***record*** the appropriation amount in the accounting system. The fiscal officer should also include the appropriated amounts on the (amended) certificate to properly monitor budget versus actual activity. Note: Amounts "deemed appropriated" are subject to inclusion in GAAP budgetary presentations (GASB Cod. 2400.102). The government has no legal authority to spend these resources unless they were either appropriated by the legislative authority or deemed appropriated by the Federal or State government. (GASB Comprehensive Implementation Guide Q&A 7.91.14.).

[7] It is permissible to certify a purchase without sufficient cash "in the bank" if a government is reasonably certain cash will be on hand in time to pay the invoice when due (i.e. is "**in the process of collection**"). For example, the Ohio EMA disburses Homeland Security grants only when the local government certifies to OEMA they have an invoice on hand requiring payment. Since the government will receive OEMA's cash in time to pay the vendor, the CFO can certify the acquisition even if there is no cash in the fund at the time of the certification. (This assumes there is sufficient appropriation for the payment).

Per 5705.41(D)(3), "Contract" as used in this section excludes current payrolls of regular employees and officers**.**

Note: See Appendix B following this chapter for examples of direct charges that do not require a certificate under 5705.41(D).

The statute provides the following exceptions to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract[10] or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than $100 for counties, or less than $3,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority. [Section 5705.41(D)].

Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year: Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified. (1987 Op. Atty. Gen. 87-069).

Per Unit Contracts: Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified. (1987 Op. Atty. Gen. 87-069).

Contract or Lease Running Beyond the Termination of the Fiscal Year Made: Pursuant to Section 5705.44, Ohio Rev. Code, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal

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[8] Under ORC Sections 9.10, 9.11 and OAG Opinion 90-082, the fiscal officer need not manually sign each certification. Electronic or mechanical signatures are permissible. However, ORC Section 9.10 expressly prohibits using rubber stamp signatures. (We likely would not deem using a rubber stamp to be material noncompliance.)

[9] ORC 3315.20 permits schools to incur a fund cash deficit in certain circumstances. See OCS step 1-19.

[10] Ohio Attorney General Opinion 87-069 concluded that when a government uses *Then and Now* certificates, they should charge the cost to the appropriation in effect at the time they incurred the obligation. For example, if a calendar-year government orders an item in December 2007, the government should charge the cost to 2007 appropriations, even if the fiscal officer signs a *Then and Now* Certificate in January 2008.

year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

Payments made from the earnings of a public utility are exempted from the certification (and encumbering) requirements of Ohio Rev. Code section 5705.41(D). [Ohio Rev. Code section 5705.44 and 1987 OAG Opinion 421]. However, these payments are still subject to the requirements of Ohio Rev. Code section 5705.41(B).

The Attorney General, in 1987 Op. Atty. Gen. No. 87 069, has clarified the application of the exceptions set forth above. In summary, he has indicated that:

If a government subject to Ohio Rev. Code Section 5705.41 (D) enters into a continuing contract under which no goods or services will be delivered during the current fiscal year and payment will not be due until delivery, no amount need be certified as available during the current fiscal year. Pursuant to Ohio Rev. Code Section 5705.44, the amount remaining unpaid at the end of a fiscal year to become due in the next fiscal year must be included in the annual appropriation measure for the next fiscal year as a fixed charge.

If under a continuing contract it cannot be determined whether delivery of goods or services and the obligation to make payment will take place in the current or an ensuing fiscal year, the total amount due under the contract must be certified as available during the current year.

If under a continuing contract delivery of goods or services is to occur in the current fiscal year with the obligation to make payment deferred until an ensuing fiscal year, the amount required to meet the obligation for goods or services delivered during the current fiscal year must be certified as available in that fiscal year.

If a government subject to Ohio Rev. Code Section 5705.41 (D), enters into a contract that is not a continuing contract, the total amount due under the contract must be certified as available in the fiscal year in which the contract is made, regardless of when delivery of goods or services will be made or when payment will become due.

County Commissioner Authorization: A board of county commissioners, by resolution, may exempt purchases of $1,000 or less from the prior certification requirement. The resolution must specify the dollar limit applicable to such purchases and whether it applies to all purchases, is limited to certain classes of purchases, or is limited to specific purchases. The board must notify the county auditor in writing of its intention to adopt such a resolution and the scope of the resolution. The county auditor has 15 days to comment on the resolution before it may be adopted by the board. Where such a resolution has been adopted, any person authorized to make purchases, within 3 business days (or other time limit the commissioners resolve) of making a purchase exempted under the resolution, must file with the county auditor a written or electronic document stating the purpose, amount, appropriation line item and date of the purchase, and the name of the vendor.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel		

• Tickler Files/Checklists • Review/Comparison/Recomputations of Purchase Documents • Budgetary/Purchasing Accounting/Monitoring System • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees – Policies and Procedures Manuals		

Suggested Audit Procedures - Compliance (Substantive) Tests:

For selected funds compare total expenditures plus contract commitments (including outstanding encumbrances) from each fund versus appropriations and determine if the expenditures and commitments are within the appropriations for the tested funds.

For selected "line items," compare total expenditures and contract commitments (including outstanding encumbrances) at the legal level of control within selected funds with appropriations. Determine if the expenditures and commitments are within selected appropriated funds at the legal level of control.

Search for material unrecorded liabilities and/or encumbrances at year end. Refer to minutes and records immediately following the fiscal year cutoff date.

Compare the date of the fiscal certificates with invoice dates, noting whether or not the certificate date precedes the invoice/obligation date.

Note:

- The obligation date may precede the invoice date. If separately identified, use the obligation date when determining compliance.
- As interpreted by AOS Bulletin 97-012, if the government does not expect to complete the project in the current year, the remainder of the project must be appropriated immediately in the subsequent year(s).

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-8 Compliance Requirement: Ohio Rev. Code Section 5705.41 (D) "Blanket" fiscal officer certificates.

Summary of Requirements: Fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance[11] adopted by the members of the legislative authority against any specific line item account over a period not ~~running~~ extending[12] beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item[13] appropriation.

In addition to regular blanket certificates, a subdivision's fiscal officer may also issue so-called "super blanket" certificates for any amount for expenditures and contracts from a specific line-item appropriation account in a specified fund for most professional services, fuel, oil, food items and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the fiscal year or, in the case of counties, beyond the quarterly spending plan established by the county commissioners. More than one super blanket certificate may be outstanding at one particular time for a particular line-item appropriation account.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Periodic Inspection/Monitoring of Blanket Purchase Orders • Use of a log to record blanket certificates issued, track the period outstanding, and monitor the number of regular blanket certificates outstanding per account • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to		

[11] The governing authority is only required to adopt one ordinance or resolution establishing the dollar limits for blanket certificates. A separate ordinance or resolution approving *each* individual blanket certificate is not necessary.

[12] We interpret the word *"extends"* in this context as the authority to certify commitments against a regular blanket certificate or super blanket certificate that expires at year end. However, the authority to pay against previously certified commitments continues until all outstanding commitments are paid. (In other words, the government should consider these unpaid year-end commitments similar to other outstanding commitments/encumbrances, and reduce next year's opening unencumbered balances for these amounts.)

[13] There is no additional legal explanation for what *"line item appropriation"* means in this context; therefore, AOS interprets "line item" to mean accounting line item, which is not necessarily the "legal level of control."

employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Inspect a representative number of “regular blanket” certificates and determine that:

- The amount is established by an ordinance or resolution passed by a majority of the legislative body. (If the legislative authority passed this in the prior years, agree to permanent file documentation.)

- They ~~do not run beyond~~ are not dated after the fiscal year end.

- They do not exceed the amount the legislative body established.

- Only one certificate is outstanding per line item appropriation.

For subdivisions using “super blanket” certificates, inspect the certification of the fiscal officer and determine whether:

- The certificates were for professional services, fuel, oil, food items or any other specific recurring and reasonably predictable operating expense and,

- They do not run beyond the fiscal year (or quarterly spending plan, if a county adopted a plan).

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-9 Compliance Requirement: Ohio Rev. Code Section 9.34 - Establishing different fiscal years for one or more funds for subdivisions other than school districts or county school financing districts. (You need not repeat this procedure every year if permanent files include documentation supporting this approval.)

Summary of Requirements: Ohio Rev. Code 9.34 prescribes fiscal years for certain government units. It states that the fiscal year of the state and every school district shall begin on July 1 and end on June 30. It also states that the fiscal year of every school library district and all political subdivisions or taxing districts[14] except for school districts shall begin on January 1 and end on December 31.

All laws that relate to levying of taxes, the collection, appropriation and expenditure of revenues or the making of financial reports refer and apply to the appropriate fiscal year as defined in this section.

However, ORC 9.34(B) also allows a political subdivision, other than a school district or a county school financing district, to use a different fiscal year or other fiscal period for one or more of its funds, including a fiscal year based upon the fiscal year of an entity providing money for the fund (i.e., a grantor agency) or the fiscal period of a capital project.[15] Use of a different fiscal year or period shall be consistent with Generally Accepted Accounting Principles and must be approved by the fiscal officer and the auditor of state.

Project-Length Budgeting

As described in AOS Bulletin 97-12, once a grant is awarded or a loan is approved by the Federal or State government, the fiscal officer must obtain an Official Certificate of Estimated Resources or an Amended Certificate of Estimated Resources for all or part of the grant or loan, based on what is to be received in the fiscal year. Any money expected to be received in the next year should be reflected on the next year's certificate. However, if the local government, with the exception of a school district, has budgeted on a project-length basis pursuant to Ohio Rev. Code § 9.34(B), the fiscal officer must obtain an Official Certificate of Estimated Resources for the entire project-length fiscal period.

The fiscal officer shall record the appropriations in accordance with the terms and conditions of the grant or loan agreement. In addition, prior to recording the appropriations, the legislative authority must pass a resolution amending its appropriation measure (Ohio Rev. Code § 5705.40). If the grant or loan will be expended over a period longer than the current fiscal year, only the amount estimated to be obligated during the current fiscal year should be recorded as appropriated. The remainder of the project should be appropriated in the subsequent year(s).

In situations where the grant or loan proceeds will be received after the expenditures are incurred (i.e., on a reimbursement basis), it is possible that the local government will have appropriated an amount for one fiscal year that is in excess of the amount reflected as available on the Amended

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[14] As used in this section, school library district, subdivision and taxing district have the same meaning assigned in Section 5705.01 of the Ohio Rev. Code. See the OCS 5705.01 Appendix. Therefore, this requirement does not apply to some entities, such as agricultural societies, community improvement corporations, etc.

[15] GASB requires CAFR's contain individual nonmajor special revenue and other governmental fund budgetary comparison schedules with detailed account classifications for governmental funds with annual "appropriated budgets."

Certificate of Estimated Resources. This situation will NOT constitute a noncompliance citation during an audit.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Presence of an Effective Accounting System • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

You should consider all laws affected by fiscal year considerations in designing controls tests and legal compliance tests for affected material funds. For example, many budgetary laws require certifications from the county auditor before a government can appropriate and spend money; these laws should be applied to the fiscal year or other period the fund uses.

If an entity uses a different fiscal year end for anything except a grant fund or a capital projects fund, inspect the approval letter from the Auditor of State permitting this practice. (You need not repeat this procedure every year if permanent files include documentation supporting this approval.)

For grants or loans awarded by the Federal or State government, determine whether the entity implemented project-length budgeting pursuant to Ohio Rev. Code § 9.34(B). If so, determine whether the fiscal officer obtained an Official Certificate of Estimated Resources for the entire project-length fiscal period or that only the amount estimated to be obligated during the current fiscal year was recorded as appropriated for advance-funded grants and loans.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-10 Compliance Requirement: Ohio Rev. Code Sections 118.021 - 118.023, 118.03, 118.05 - .06, 118.10, 118.12 - .13, and 118.15 fiscal watch and fiscal emergency for a municipal corporation, county or township.

> ***Note*:** Auditors should not cite Fiscal Emergency entities under ORC 5705.10 or ORC 5705.41 for operating fund deficits. Rather, auditors should cite entities under ORC 118 (See section 1-10) when they do not adhere to their recovery plan. **Please note this exception applies only to funds other than the general fund that are in a deficit, not to healthy funds[16] of the entity. Therefore, auditors should still test the healthy funds of Fiscal Emergency entities for compliance with step 1-10.**

Summary of Requirements:

In accordance with Ohio Rev. Code Section 118.021, a municipal corporation, county or township may undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency. The review will be initiated by a written request to the Auditor of State.

Pursuant to 118.022, any one or more of the following conditions are grounds for a **fiscal watch**:

(1)(a) All accounts that were due and payable from the general fund of a municipal corporation, county, or township at the end of the preceding fiscal year that had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty was added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund, exceeded one-twelfth of the general fund budget for that year, or

(b) All accounts that were due and payable at the end of the preceding fiscal year from all funds of the municipal corporation, county, or township and that had been due and payable for at for at least thirty days at the end of the fiscal year or to which a penalty was added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds available to pay those accounts, exceeded one-twelfth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which those accounts are payable.

OR

(2) The aggregate of deficit amounts of all deficit funds at the end of the preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet that deficit, exceeded one-twelfth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than transfers from the general fund.

OR

(3) At the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county, or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive

[16] We interpret "healthy funds" to mean funds with positive cash balances.

balances of the general fund and those special funds, the purposes of which the unsegregated treasury is held to meet, and that deficiency exceeded one-twelfth of the total amount received into the unsegregated treasury during the preceding fiscal year.

OR

(4) Based on the AOS' examination of the financial projection approved by the legislative authority of a municipal corporation, county, or township, the AOS certifies that the general fund deficit at the end of the current fiscal year will exceed one-twelfth of the general fund revenue from the preceding fiscal year.

Pursuant to 118.023, upon a determination that any of the above listed conditions are present, the Auditor of State shall issue a written declaration of a fiscal watch.

Pursuant to 118.03, any one or more of the following are conditions of a **fiscal emergency**:

(1) The existence, at the time of the determination by the AOS under Ohio Rev. Code § 118.04 of a default on any debt obligation for more than thirty days.

OR

(2) The existence, at the time of the determination by the AOS under Ohio Rev. Code § 118.04 of a failure for lack of cash in the funds to make payment of all payroll to the employees of a municipal corporation, county, or township in the amounts and at the times required by law, ordinances, resolutions, or agreements, which failure of payment has continued:

(a) For more than thirty days after such time for payment, or

(b) Beyond a period of extension, or beyond the expiration of ninety days from the original time for payment, whichever occurs first, if the time for payment has been extended for more than thirty days by the written consent of at least two-thirds of the employees affected by such failure to pay, acting individually or by their duly authorized representatives. The failure of one county office, board, or commission to meet payroll does not in itself constitute a fiscal emergency.

OR

(3) An increase, by action of the county budget commission pursuant to Ohio Rev. Code §5705.31(D) in the minimum levy of the municipal corporation, county, or township for the current or next fiscal year which results in a reduction in the minimum levies for one or more other subdivisions or taxing districts.

OR

(4) The existence of a condition in which all accounts that, at the end of its preceding fiscal year, were due and payable from the general fund and that either had been due and payable for at least thirty days at the end of the fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, including, but not limited to, final judgments, fringe benefit payments due and payable, and amounts due and payable to persons and other governmental entities and including any interest and penalties thereon,

less the year-end balance in the general fund, exceeded one-sixth of the general fund budget for that year, or in which all accounts that, at the end of its preceding fiscal year, were due and payable from all funds of the municipal corporation, county, or township and that either had been due and payable for at least thirty days at the end of that fiscal year or to which a penalty has been added for failure to pay by the end of the fiscal year, less the year-end balance in the general fund and in the respective special funds lawfully available to pay such accounts, exceeded one-sixth of the available revenues during the preceding fiscal year, excluding nonrecurring receipts, of the general fund and of all special funds from which such accounts lawfully are payable. Accounts due and payable shall not include any account, or portion thereof, that is being contested in good faith.

OR

(5) The existence of a condition in which the aggregate of deficit amounts of all deficit funds at the end of its preceding fiscal year, less the total of any year-end balance in the general fund and in any special fund that may be transferred as provided in Ohio Rev. Code § 5705.14 to meet such deficit, exceeded one-sixth of the total of the general fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the general fund.

OR

(6) The existence of a condition in which, at the end of the preceding fiscal year, moneys and marketable investments in or held for the unsegregated treasury of the municipal corporation, county or township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the general fund and those special funds the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.

Pursuant to 118.04, the Auditor of State shall determine the existence of fiscal emergency conditions. The existence of any such condition constitutes a fiscal emergency.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

If the municipal corporation, county or township is currently in fiscal watch, review the entity's progress and determine whether any of the fiscal watch conditions currently exist. If during audit work and based on the evaluation of the fiscal watch conditions, the auditor notes an improvement (i.e., fiscal watch conditions no longer exist) or a deterioration (i.e., fiscal emergency conditions now exist), the auditor should contact the engagement chief auditor. If after evaluation the chief auditor concludes the entity should be removed from fiscal watch or should be placed in fiscal emergency, the chief auditor should contact the Chief Deputy Auditor or his designee.

If the municipal corporation, county or township is currently in fiscal emergency review the entity's detailed financial plan and recovery plan. An effective recovery plan should identify the steps necessary for the entity to fully recover from fiscal watch or fiscal emergency and identify target dates to achieve each component of the recovery plan. The recovery plan should be periodically updated for any changes in circumstances affecting the entity. Determine whether the entity has violated any statutory requirements to follow the plan.

Determine whether the entity has established a financial planning and supervision commission. [Ohio Rev. Code § 118.05]

Determine whether the mayor, county commissioners or township trustees have submitted (within 120 days) a detailed financial plan outlining the actions to be taken to eliminate all fiscal emergency conditions; satisfy any judgments, past due accounts payable and all past due and payable payroll and fringe benefits; eliminate deficits in all deficit funds; balance the budgets and avoid future deficits in any funds; maintain current payments for payroll, fringe benefits and accounts; restore the ability of the entity to market long-term general obligation bonds under provisions of law applicable to the entity; and other requirements of Ohio Rev. Code § 118.06.

Determine whether the entity has developed an effective financial accounting and reporting system to comply with Ohio Rev. Code Chapter 117. [Ohio Rev. Code § 118.10]

Determine whether selected expenditures made are in accordance with the approved financial plan subject to the requirements of Ohio Rev. Code § 118.12.

Determine whether the appropriations measures and tax budget are consistent with the financial plan. [Ohio Rev. Code § 118.13]

Determine whether the debt obligations have been approved by the commission and the ordinances authorizing the issuance contain all required elements. [Ohio Rev. Code § 118.15 – 118.99. [Ohio Rev. Code § 118.15]

If after evaluation the chief auditor concludes the entity should be removed from fiscal emergency, the chief auditor should contact the Chief Deputy Auditor or his designee.

If such information comes to the attention of an IPA while conducting an audit, the IPA should contact the regional chief auditor.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant

deficiencies/material weaknesses, and management letter comments):

1-11 Compliance Requirements: Ohio Rev. Code Sections 5705.28(B)(2), 5705.36, 5705.40, 5705.41(B), 5705.41(D) Budget requirements for taxing districts that choose not to levy taxes (OCS Appendix C and Ohio Rev. Code 5705.01 defines taxing districts.)

The taxing authority of a taxing unit that does not levy a tax must still follow the budgetary requirements listed below. The applicable limited requirements are outlined in the table below; however, auditors should still refer to the Legal Matrices in Appendix F of the Ohio Compliance Supplement for guidance in determining the applicability of these requirements to various types of entities:

5705.28(B)(2)Requirements	Applicable ORC Section[17]	Applicable OCS Section
Prepare certificate of estimated resources (but does not require budget commission approval).	5705.36	1-2
Must amend estimated resources under the circumstances described in the OCS (also see ADAM 97-05).	5705.36	1-3
Appropriate at the minimum level of control prescribed by 5705.38(C) (or a lower level). No budget commission approval required.	5705.38	1-4
Cannot appropriate more than estimated resources	5705.28(B)(2)(c)	Comparable to 1-5
Must amend appropriations if they intend to spend more than the original appropriation.	5705.40	1-6
Cannot disburse more than appropriated.	5705.41(B)	1-7
Must certify the availability of funds.	5705.41(D)	1-7
May issue blanket or super blanket purchase orders.	5705.41(D)	1-8

If an entity levies taxes, the sections above apply. However, some entities with taxing authority do not levy taxes. When they do not levy taxes, Ohio Rev. Code §5705.28 (B)(2) permits a comparable, but somewhat streamlined budget process. Ohio Rev. Code §5705.28(B)(2) requires entities to follow §5705.36, .38, .40, .41, .43, .44, and .45. Documents prepared in accordance with these sections need not be filed with the county auditor or county budget commission. While Ohio Rev. Code §5705.39 does not apply, §5705.28(B)(2)(c) prohibits appropriations from exceeding estimated revenue (i.e. receipts + beginning unencumbered cash).

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals		

[17] For conservancy districts, auditors should additionally review the requirements of Ohio Rev. Code §6101.44 and tailor their compliance testing procedures accordingly, if necessary. For conservancy districts that levy taxes, we should cite to the budgetary requirements contained in Ohio Rev. Code § 6101.44 where they are similar to requirements contained in Ohio Rev. Code Chapter 5705. The more specific requirements contained in Ohio Rev. Code Chapter 6101 trump those contained in Chapter 5705. Auditors should apply the provisions of Ohio Rev. Code Chapter 5705 when Chapter 6101 does not address budgetary restrictions applicable to conservancy districts.

• Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Design and perform tests to include the applicable OCS sections referenced above.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Section B: Additional School Requirements

New: HB 1, 128th GA
Effective: 7/17/09

1-12 Compliance Requirement: Ohio Rev. Code Section 5705.391 and Ohio Admin. Code Section 3301-92-04: School districts (and community schools per ORC Section 3314.03(A)(11)(d)) must prepare 5 year projections.

Summary of requirements for public school districts and community schools ~~(i.e. school districts that are not community schools~~):

Ohio Rev. Code section 5705.391(A)
School boards must prepare 5 year projections of revenues and expenditures. Most of the guidance on how to prepare these projections is found in Ohio Admin. Code § 3301-92-04. The plan must be approved by resolution and submitted to the Department of Education upon the adoption of an annual appropriation measure, but no later than October 31 of any fiscal year.

A board of education must update its five year projection between April 1 and May 31 of each fiscal year and submit it to the department of education. (Ohio Admin. Code Section 3301-92-04(F)). In addition, a board of education notified under division (A) of section 5705.391 of the Ohio Rev. Code shall submit a school district approved written plan in a timely manner as required to the department of education to eliminate any current deficits and avoid the projected future deficits. [Ohio Admin. Code 3301-92-04(E)]

The board of education of a school district that is in fiscal watch status, or the financial planning and supervision commission for a school district in fiscal emergency status, must revise the school district's five year projection of revenues and expenditures so that the projection is consistent with the financial plan or financial recovery plan upon the approval of the respective plan by the Superintendent of Public Instruction. (R.C. 3316.043)

The rules allow the Auditor of State and the Ohio Department of Education to prescribe the format and content of the five year projection. These guidelines are fairly complex (see Auditor of State Bulletin 98-015 for more information). The Auditor of State and the Ohio Department of Education generally are responsible for reviewing these projections (and related assumptions) for conformity with the requirements. The independent auditor is expected to evaluate whether the data in the projections for the current period are reasonably supported by the client's documentation.

Summary of requirements for community schools:

To meet this requirement, community schools must submit the document available at:

http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEPrimary.aspx?Page=2&TopicID=1797&TopicRelationID=1797

NOTE: Community school five-year projections are only available for FY08. Auditors should contact ~~William Nelson, eSchool Consultant Office of Community Schools,~~ Ohio Department of Education (community.schools@ode.state.oh.us) to request five-year projections for other periods.

You can view the projection a public school district submitted at:

http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEPrimary.aspx?Page=2&TopicID=11&TopicRelationID=1437

The School's board should approve this plan.

NOTE: The new spending plan under HB 1 does not replace the Five Year Forecast. Effective 7/17/09, HB 1 requires all school districts to eventually submit a spending plan describing how the Evidence Based Model funding components will be deployed. These requirements will be phased in over time and are not effective for FY 2010 school district audits.

POSSIBLE NONCOMPLIANCE RISK FACTORS:

Note: In assessing the risk of noncompliance, auditors should consider whether the school district has factored in recent change in Ohio School Funding and Taxation laws into their projections, such as the HB 66 phase-out and loss reimbursement of Tangible Personal Property Taxes. Effective October 16, 2009, HB 1 granted an extension through fiscal year 2011 (one extra year), of full reimbursements to local governments (other than school districts) from the Local Government Tangible Property Tax Replacement Fund related to the loss in revenue caused by elimination of the tangible personal property tax.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Determine that the five year projection under Ohio Rev. Code Section 5705.391(A) was filed with the Department of Education by viewing the web link described above.

Compare actual revenues and expenditures to projections. Inspect documentation that the board updated its projections between April 1 and May 31.

If contracts, etc., subject to §5705.412 were entered into during the period, inspect documentation indicating the related five year projections were updated. (This step will be sufficiently covered by reading the assumptions and performing the steps below.)

If in fiscal watch or fiscal emergency status, determine whether the school district updated its five year projection consistent with the terms outlined in the financial plan or financial recovery plan.

Read the client's assumptions. Perform analytical procedures and evaluate whether the assumptions are reasonable and the resulting projections are in accordance with those assumptions.

Consider if the projections indicate any possible "going concern" conditions [AU § 341] or fiscal distress conditions [OCS Section 1-15].

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-13 Compliance Requirement: Ohio Rev. Code Section 5705.412 Restriction upon **school district expenditures** and certifying adequate revenues. Application: City, local, exempted village and joint vocational school districts.

Summary of Requirements: Ohio Rev. Code Section 5705.412 requires the **treasurer, superintendent and president of the board of education** to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year. For a school district in fiscal emergency under Ohio Rev. Code chapter 3316, the certificate shall be signed by a member of the school district's financial planning and supervision commission (Ohio Rev. Code Section 5705.412 (B) (3)).

Term of certificate:

- The certificate attached to an appropriation measure covers only the fiscal year in which the appropriation measure is effective.

- The certification must be attached to all appropriation measures *except* for temporary measures when the temporary measure (1) does not appropriate more than 25 percent of the total resources available last year for any fund, (2) the measure will not be in effect for more than thirty days after the earliest date the school district could pass an annual appropriation measure, and (3) an amended certificate of available revenues has not been certified to the school district under Ohio Rev. Code §5705.36.

- The certificate attached to a **qualifying contract** covers the term of the contract.

- The certificate attached to a wage or salary schedule covers the term of the schedule.

- A "*qualifying contract*" is ". . . any agreement for the expenditure of money under which aggregate payments from the funds included in the school district's five-year projection under section 5705.391 of the revised code [see OCS Section 1-12] will exceed the lesser of the following amounts . . . ":

  - $500,000;
  - 1% of the general fund's total estimated revenues as certified in the school district's most recent certificate of estimated resources under Ohio Rev. Code § 5705.36 [see OCS Sections 1-2 and 1-3]

Tax levies: The certification of an appropriation measure may not anticipate the renewal or replacement of an existing property tax levy nor the approval to extend an existing income tax levy beyond its current expiration. All other certifications may anticipate the renewal or replacement of existing property tax levies and the approval to extend an existing income tax levy beyond its current expiration (OAC 3301-92-05 (B)).

A school district must include the additional certification under Section 5705.412 along with the certification required under Section 5705.41 *except* under the following circumstances:

- for current payrolls of, or contracts of employment with, any employees or officers of the school district.[18]

- when increasing the wages or salaries enabling the school board to comply with division (B) of Ohio Rev. Code Section 3317.13, which addresses the minimum salary schedule for teachers.

Section 5705.412 certificates *should* be executed for:

- appropriation measures (except certain temporary measures; see above)[19];

- increased salary or wage schedules[20] and

- any other "qualifying contracts", including 1) negotiated agreements (e.g. professional association ["union"] contracts) and, 2) contracts for benefits (e.g., major health insurance contracts)

Obligations that have not been certified as required are considered void[21]. No payments may be made on void obligations.

Penalties: Anyone who knowingly does any of the following, is liable for the full amount paid on the obligation, up to $10,000:

- executing an obligation contrary to §5705.412,
- expending or authorizing the expenditure of public funds contrary to §5705.412, or
- authorizing or making payment of public funds on a void obligation

[18] For example, contracts with individual teachers do not require a "412" certificate, though the negotiated agreement and/or teaching staff salary schedule generally would. Similarly, an employment contract with an individual administrator, who is not covered by a board adopted salary schedule would not require "412" certification.

[19] The Auditor of State's Office interprets this requirement to mean any and all appropriation measures for any and all funds of the school district. Ohio Rev. Code § 5705.412 requires that no district shall adopt "any appropriation measure … unless there is attached thereto a certificate, signed as required by this section, that the school district has in effect the authorization to levy taxes including the renewal or replacement of existing levies which, when combined with the estimated revenue from all other sources available to the district at the time of certification, are sufficient to provide the operating revenues necessary to enable the district to maintain all personnel and programs … ." (emphasis added). Likewise, the Ohio School Law Guide also states that "[c]learly all appropriation measures must be certified pursuant to Ohio Rev. Code § 5705.412".

[20] Increased salary schedules that are part of a contract previously lawfully certified under section 5705.412 need not be re-certified before they take effect. However, the school district may have to adjust revenues and expenditures, in the section 5705.391 (A) five-year projection, in the year the increased salary or wage schedule takes effect in order to properly certify its annual appropriation measure.

[21] Occasionally, school districts amend appropriations during the year without properly obtaining 412 certifications. AOS will not consider obligations to be "void" where a *reduction* in appropriations is made without 412 certification. However, auditors should still cite school districts under ORC 5705.412 when a school does not prepare these certificates. Uncertified obligations will be considered void and, if material, should be removed from budgetary presentations.

The Auditor of State is required to refer contractual or wage schedule noncompliance to the school district's statutory legal counsel.

School districts should maintain a continuing record of contracts which have been certified and adequate documentation to substantiate the certifications (OAC 3301-92-05(E)).

The rules for 5705.412 (Ohio Admin Code section 3301-92-05 (B) - (D)) provide guidance on projecting revenues to future periods for purposes of the certifications.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Preparation and review of 5 year projections under § 5705.391 (A) • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Scan minutes, contracts files, etc., to identify appropriation measures (except certain temporary measures), increased salary or wage schedules, and qualifying contracts.

Selected a few appropriation measures, increased salary or wage schedules, and a few qualifying contracts for which "412" certificates were not executed during the fiscal year.

If a qualifying contract, etc., should have been certified and the auditor cannot obtain documentation that it was, the auditor must issue a noncompliance citation. Also, the noncompliance matter must be referred to the prosecuting attorney for the county, or the city law director in the case of a city school district, or other chief law officer of the school district.[22] ~~send the Board President a letter **during the audit** in substantially the form indicated in the sample~~

[22] In the past, the Auditor of State has issued a Notice of Potential Ohio Rev. Code §5705.412 Violation to the governing board of the school district. The Notice gave the school district 30 days to retroactively comply with the provisions of Ohio Rev. Code §5705.412. However, it has come to our attention that retroactive correction by the governing authority does not absolve the school district of noncompliance actions (i.e., referral to the prosecuting attorney, etc.) under the statute. Therefore, the Auditor of State will no longer send 30-day Notices for Ohio Rev. Code §5705.412 violations.

~~immediately following this OCS Section.[23] Send copies to the parties indicated in the sample letter attached~~.

Select a few qualifying contracts, etc., entered into during the fiscal year(s) under audit. Inspect the "412" certificates and the supporting documentation, including the five year projections that were available to school district officials at the time of the execution of the qualifying contracts, etc. Evaluate for reasonableness and conformity with the rules.

Compare qualifying contract, etc., dates with related certification dates and note any differences.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

[23] ~~If the school district substantially complied with § 5705.412 certification provisions for appropriation measures, increased salary and wage schedules, and "qualifying contracts," the auditor may waive sending this letter and report the matter in the appropriate auditor's compliance report.~~

~~[DATE]~~

~~[Board President]~~
~~[Name & Type] School District~~
~~[Street Address]~~
~~[City], Ohio [Zip]~~

~~**Re: Notice of Potential Ohio Rev. Code § 5705.412 Violation**~~

~~Dear [Board President]:~~

~~While auditing your School District for the year ended June 30, 20YY, we noted a [**pick one: "qualifying contract"/annual appropriation measure/increased salary or wage schedule**] that did not have attached a contemporaneously executed certificate of adequate revenue as required by Ohio Rev. Code § 5705.412. **[Describe the contract, appropriation, or schedule at issue so that they know exactly which one we are questioning.]**~~

~~Ohio Rev. Code § 5705.412, as amended, in effect from June 30, 2000, provides:~~

> ~~[N]o school district shall adopt any appropriation measure, make any qualifying contract, or increase during any school year any wage or salary schedule unless there is attached thereto a certificate, signed as required by this section, that the school district has in effect the authorization to levy taxes including the renewal or replacement of existing levies which, when combined with the estimated revenue from all other sources available to the school district at the time of certification, are sufficient to provide the operating revenues necessary to enable the school district to maintain all personnel and programs for all the days set forth in its adopted school calendars for the current fiscal year and for a number of days in succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year...~~
>
> ~~The certificate shall be signed by the treasurer and president of the board of education and the superintendent of the school district, unless the school district is in a state of fiscal emergency declared under Chapter 3316 of the Ohio Rev. Code, in which case the certificate shall be signed by a member of the school district's financial planning and supervision commission who is designated by the commission for this purpose.~~

~~. . . . .~~

~~The law also provides, "[e]very qualifying contract made or wage or salary schedule adopted or put into effect without such a certificate shall be void, and no payment of any amount due thereon shall be made."~~

~~Section 5705.412 specifically directs the Auditor of State's Office to determine each school district's compliance with the statute's requirements.~~

~~If there is a certificate that was signed by **[you, the superintendent and the treasurer/the designated member of the financial planning commission]** at or about the time the **[qualifying contract/schedule/appropriation]** was made, please provide me with a copy of such certificate immediately. If no such certificate was executed at or about the time the **[qualifying contract/schedule/appropriation]** was made, the School District has thirty (30) days to provide~~

~~our Office with a properly executed certificate and appropriate supporting documentation. Appropriate supporting documentation is:~~

- ~~the five year projection the board was required to prepare and submit to the Department of Education pursuant to Ohio Rev. Code § 5705.391(A) and Ohio Admin. Code § 3301-92-04, or,~~

- ~~any other documentation reflecting the School District's analysis of the financial impact of the **[qualifying contract/schedule/appropriation]**.~~

~~Section 5705.412 clearly provides that any **[contract/schedule/appropriation]** that is not certified is void as a matter of law. Therefore, you should also be aware that if you do not supply us with a properly executed certificate within the next thirty (30) days, § 5705.412 provides that any payments made on the **[contract/schedule/appropriation]** could be subject to repayment and recovery.~~

~~If you have any questions, please do not hesitate to call me.~~

~~Very truly yours,~~

~~MARY TAYLOR~~
~~AUDITOR OF STATE~~

~~[Your Name]~~
~~Chief Auditor, [Name] Region~~

~~cc: [Board Member]~~[24]
~~[Board Member]~~
~~[Board Member]~~
~~[Board Member]~~
~~[Superintendent]~~
~~[Treasurer]~~
~~[Statutory Legal Counsel]~~
~~bcc: Robert Hinkle~~
~~Brian Cook~~

[24] ~~Send a copy to each board member.~~

New: HB 1, 128th GA
Effective: 7/17/09

1-14 Compliance Requirements: Ohio Rev. Code Sections 3315.17 and .171 (textbooks); 3315.18 and .181 (capital); 3317.012 (adjusts base cost); 3317.02 (defines formula amount); (textbooks), -02 (capital)

Summary of Requirements: These laws and regulations require every city, local, exempted village and joint vocational school district, to establish two reserves:

1) Textbooks and instructional materials reserve and
2) Capital (acquisition) and maintenance reserve

The reserves are to be accounted for in the school district's general fund using any reasonable accounting method.

The capital acquisition and textbooks reserves have several of the same characteristics:

- The reserves must be calculated and set-aside annually.
- If the set-aside amount is not spent in one year it is carried forward to the next year.
- The reserve must be represented by (restricted) cash at year-end.
- The reserve is calculated by multiplying the base amount by a percentage.
- The base represents three percent of the State base-cost formula amount for the preceding year multiplied by the school district's student population or the sum of certain specific prior fiscal year receipts. (Ohio Rev. Code §§ 3315.17(A), 3315.18(A))
- The base and annual set-aside formula are the same for both set asides.
- The amount of the required reserve may be reduced (offset[25]) by resources received during the fiscal year whose use is restricted to the purpose of one of the reserves.
- School districts must be able to provide a list of qualified expenditures for audit purposes.
- School districts must be able to document calculation of fiscal year-end reserve balances.
- Each school district's annual report must include a schedule showing the balance of the set-aside carried forward from the previous year, ~~a calculation of~~ the current year set-aside, contributions in excess of the current year set aside[26], qualifying expenditures[27],

[25] "Offsets" are certain revenues recorded to other funds as defined in Rev. Code Sections 3315.171 and 3315.181. The revenue in excess of the set aside and qualified expenditures does not accumulate or carry forward to the next fiscal year. Real (homestead and rollbacks) and personal property tax replacement payments received by school districts should be considered part of the levy proceeds when calculating allowable offsets for textbooks and capital reserves. Additionally, revenue from the State Fiscal Stabilization Fund (SFSF) (fund 532) should not be used as an "offset" since resources cannot be set aside for "future" expenditures. However, ***specific allowable*** SFSF expenditures may be used as "qualifying expenditures" for the textbook set aside. See footnote 25 below for additional guidance.

[26] A board may withdraw cash contributions exceeding statutory minimums from these reserves by resolution. Excess contributions may be deducted from future years' required set aside amount. Report any excess contributions in external financial reports as "~~designations~~" *committed, assigned, or restricted*

any reductions (offsets) to the required amount from receipts similarly restricted, any reductions from certain debt proceeds, and the fiscal year-end balance of the set aside, the amount to be reserved, and the balance that may be carried forward to the next fiscal year.

Annual Set-Aside Calculation:

- The annual set asides are calculated by multiplying a percentage of the "**formula amount**"[28] by the school district's "**student population**"[29]. The **preceding year's** "formula amount" and "student population" are used for the calculation. The percentage is set at 3% by statute, though the Auditor of State has been given some discretion to establish alternative percentages[30]. The formula is:

  [(% x Formula Amount) x Student Population]

- A school district may annually elect under Rev. Code Section 3315.19 to follow the former provisions of law existing prior to July 1, 2001 for the textbook and capital set-aside. In lieu of following the amended requirements, the board of education *annually* may elect (by resolution) to follow the textbook and/or capital set-aside requirements (from the ORC provisions) as they existed prior to July 1, 2001. (Audit programs D and E

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governmental fund balance as appropriate under the circumstances described in GASB 54 ~~[GASB Cod. §1800.141~~ GASBS 54, ¶ 13 --- 16].

[27] "Qualifying expenditures" are expenditures from the general fund and a capital projects fund created under Ohio Rev. Code Section 5705.13(C) that meet the definitions in the Ohio Admin. Code 3301-92-01 and 3301-92-02. Additionally, Q15 of the Ohio Department of Education State Fiscal Stabilization Funds (SFSF) Frequently Asked Questions, dated 4/5/2010 available at http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEDetail.aspx?page=555 indicates use of the SFSF for the reservation of fund balance required for the set aside would not constitute an obligation of the funds. School districts must actually obligate the funds for specific allowable activities during the period of fund availability. See ODE SFSF FAQ Q17 for further guidance on textbook obligations. Thus, expenditures for the textbooks from the SFSF fund are qualifying expenditures for the set aside. However, pursuant to Q 16 of ODE SFSF FAQ SFSF monies may not be used for *maintenance* expenditures or set asides. Monies being transferred from a capital projects fund created under Ohio Rev. Code Section 5705.13(C) to the General Fund cannot be included as offsets. The payment of a salary for a maintenance worker such as an electrician or maintenance supervisors are not automatically qualifying expenditures for the capital and maintenance set aside. However, the portion of the salaries paid to a maintenance worker, electrician, or a supervisor paid from the general fund that is directly related to preventative maintenance, periodic repairs and replacement of parts, structural components and other activities needed to maintain an asset is a qualifying expenditure provided it is substantiated through a work order [Ohio Admin. Code § 3301-92-02 and R.C. § 5705.13(C)].

[28] "Formula amount" is the base cost per pupil as determined by Ohio Rev. Code Sections 3317.02 and .012. ~~For FY 2004, the amount is $5058. For FY '05, the amount is $5,169. For FY 2006, the amount is $5,283. For FY 2007, the amount is $5,403;~~ For FY 2008, the amount is $5,565; and for FY 2009 through FY 2011, the amount is $5,732.

[29] "Student population" is a defined term. The Ohio Department of Education is responsible for calculating the student population based on information the school district submits (3315.17(F)).

[30] No alternative percentages have been established as of the date of this document.

follow this OCS Section, and describe both options.) This election must be made within 90 days after the beginning of the fiscal year for which the election is to apply.

- Fiscal year expenditures exceeding the current year set aside requirement plus the carryover balance may be carried forward to offset a future year's annual textbook and instructional materials set aside requirement. (AOS Bulletin 2001-006). **Excess expenditures in the capital and maintenance set aside do not carry forward.** In accordance with Rev. Code Section 3315.17(B)(1), any amount deposited into the textbook and instructional materials set aside that exceeds the annual set requirement[31] may be used to reduce future contributions or can be withdrawn by the school district board by a resolution.

- Excess offsets (annual revenue from specific sources) do not carry forward.

Other Uses of the Textbook and Instructional Material Set Aside:

Ohio Rev. Code Section 3315.18(D) allows a school district to spend the textbook reserve for things other than textbooks if both of the following occur during that fiscal year:

1. All of the following certify to the school district board in writing that the school district has sufficient textbooks, instructional software, and instructional materials, supplies, and equipment to ensure a thorough and efficient education within the school district:
    a. The school district superintendent;
    b. In school districts required to have a business advisory council, a person designated by vote of the business advisory council;
    c. If the school district teachers are represented by an exclusive bargaining representative for purposes of Rev. Code Chapter 4117, the president of that organization or the president's designee.

2. The school district board adopts, by unanimous vote of all members of the board, a resolution stating that the school district has sufficient textbooks, instructional software, and instructional materials, supplies, and equipment to ensure a thorough and efficient education within the school district.

Waivers of the Annual Set Aside Requirements:

School districts in fiscal emergency may deposit an amount less than the required annual set aside, or make no deposit into the school district textbook and instructional materials and the capital and maintenance funds. As good practice, while not specifically included in statute, the school district board of education should document this decision annually in a separate resolution. ~~The school district board of education must document this decision annually in a separate, specific resolution.~~ A board of education's approval of a five-year projection including the waiver of the set aside(s) is not considered approval of the set aside waiver.

School districts in fiscal watch or caution may apply to the superintendent of public instruction for a waiver[32] from the annual set aside requirement. The waiver may permit the school district

[31] Report these balances as "designations" in governmental fund financial statements [GASB 1800.144.]

[32] In any year a waiver is granted, it is assumed the resources that would have been otherwise set aside will be used to support existing education programs. Therefore, resources expended in excess of a carryover set

to deposit an amount less than the annual set aside requirement or make no deposit into the school district textbook and instructional materials fund and/or the capital and maintenance funds for that year. The superintendent may grant a waiver under division (B)(3) of Section 3315.17, Rev. Code, if the school district demonstrates to the satisfaction of the superintendent of public instruction that compliance with the annual set aside requirement for that year will create an undue financial hardship on the school district.

School districts, not more often than one fiscal year in every three consecutive fiscal years, may apply to the superintendent of public instruction for a waiver from the annual set aside requirements of Sections 3315.17 and 3315.18, Rev. Code. The waiver would permit a school district to deposit an amount less than the annual set aside requirement or make no deposit into the school district textbook and instructional materials fund or the capital and maintenance fund for that year. The superintendent of public instruction may grant a waiver (Section 3315.17(B)(4)) if the school district demonstrates to the satisfaction of the superintendent that compliance with the annual set aside requirement for that fiscal year will necessitate the reduction or elimination of a program currently offered by the school district that is critical to the academic success of students of the school district and that no reasonable alternatives exist for spending reductions in other areas of operation within the school district that negate the necessity of the reduction or elimination of that program.

A waiver is granted for only the requirement to set aside current year revenue for textbooks and instructional materials and/or for capital and maintenance. A waiver does not eliminate the set aside reserve or any accumulated/existing balance carried over from prior years. The annual set asides waived need not be made up in future years.

Other capital and maintenance provisions established July 1, 2001:

- Within the capital and maintenance set-aside, the board of education *may* establish a separate account solely for depositing funds[33] transferred from the budget stabilization reserve (discussed in Ohio Compliance Supplement Section 1-14(A)) which was required by Ohio Rev. Code Section 5705.29 (H) and (I) prior to April 10, 2001. The budget reserve may also be transferred to the Classroom Facilities (010) Fund (See AOS Bulletin 2001-006).

- Funds deposited into the separate account and interest on those funds may only be used for the school district's share of basic project costs for any project undertaken in accordance with Ohio Rev. Code Chapter 3318 (School Facilities Commission projects). (See OCS Chapter 2 for a discussion of certain ORC Chapter 3318 programs.)

Sample Note Disclosure Table

AOS Bulletin No. 99-017 includes a recommended format for the disclosure of the set asides; however, the bulletin format pre-dates certain changes and implementation issues that have since

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aside balance are considered discretionary and are not to accumulate or be used to reduce future annual set aside requirements. It is the Department of Education's intent to not approve a waiver in excess of the annual set aside less any offsets. A waiver in excess of the current year set aside less offsets does not carry forward.

[33] These funds and interest deposited into the capital and maintenance reserve may be treated as deposits to reduce the annual capital and maintenance contribution otherwise required (AOS Bulletin 2001-006).

arisen. Below is a current sample table for the set aside disclosure and the order in which items should be presented:

	Textbooks	Capital Improvements
Set Aside Reserve Balance June 30, 20X1	$0	$0
Current Year Set Aside Requirement	500,000	500,000
Contributions in Excess of the Current Fiscal Year Set Aside Requirement	0	0
Current Year Qualifying Expenditures	(465,000)	(50,000)
Excess Qualified Expenditures from Prior Years	(25,000)	0
Current Year Offsets	(25,000)	(100,000)
Waiver Granted by the Department of Education	0	
Prior Year Offset from Bond Proceeds	0	(350,000)
Total	($15,000)	$0
Balance Carried Forward to Fiscal Year 20X2	0	0
Set Aside Reserve Balance June 30, 20X2	$0	$0

In this example, the school district had excess qualifying expenditures for textbooks from prior years that were used to reduce the textbooks set aside reserve amount in the current year. Excess qualified expenditures for textbooks may be carried forward to future periods; however, excess qualified expenditures for capital improvements do not carry forward.

The $15,000 excess in textbooks is the result of current year offsets. The excess in offsets do not carry forward to future periods. If qualified expenditures exceed the carryover balance and the current year set aside requirement, no offsets or waivers should be presented and the excess/negative amount should be presented in the total line and the balance carried forward to the next fiscal year.

The amount presented for Prior Year Offset from Bond Proceeds is limited to an amount needed to reduce the reserve for capital improvements to $0. The school district is responsible for tracking the amount of the bond proceeds that may be used as an offset in future periods.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists		

• Presence of an effective accounting system • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Special programs for auditing these reserves immediately follow. If the school district has not elected to follow the pre-July 1, 2001 base calculation, use **Audit Programs A and B**. If the school district has elected to follow the pre-July 1, 2001 base calculation, use **Audit Programs D and E**.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

New: HB 1, 128th GA
Effective: 7/17/09

1-14 (A) Compliance Requirements: Ohio Rev. Code Section 5705.29 (F) (budget stabilization); Ohio Rev. Code Section 3315.18 (C) (capital & maintenance fund).

Summary of Requirements: Effective April 10, 2001, S.B. No. 345 eliminated the requirement that school districts establish and maintain a budget stabilization reserve. Ohio Rev. Code § 3315.18(C) provides requirements for the disposition of any budget reserve balance that may have existed at April 10, 2001.

Any balance (this includes the amount representing required Bureau of Workers' Compensation (BWC) deposits and the amount representing other required deposits) remaining in the previously required budget reserve at April 10, 2001, may, at the board's discretion, be returned to the general fund[34], or left in the reserve account and used by the board to offset any budget deficit the school district may experience in future years.[35]

Use of BWC Portion:

Senate Bill 345, Section 4, (123rd General Assembly), places restrictions on the use of budget reserves consisting of BWC refunds. These restrictions are:

- to offset a budget deficit;
- for school facility construction, renovation, or repair[36] (may transfer to a separate account in the capital and maintenance set-aside as discussed above[34]);
- for textbooks or instructional materials, including science equipment for laboratories;
- for purchase of school buses; or
- for professional development of teachers

Per AOS Bulletin 2001-006, the balance of the budget reserve not representing BWC rebates ("other" budget reserve monies) may be used as follows: (1) left where it currently resides and used to offset any future budget deficit; (2) transferred in total or in part to a special cost center within Fund 010, Classroom Facilities; or (3) returned (transferred out of the special cost center) to the general fund and used at the discretion of the school district board.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals		

[34] The school district must maintain documentation to support the use of any BWC balance for permitted purposes (see *Use of BWC Portion*).

[35] To exercise this option, the Board must adopt a resolution and comply with the budget reserve provisions in Ohio Rev. Code § 5705.13(A) (OCS Section 1-27).

[36] AOS Bulletin 2001-006 allows for the transfer in of the BWC portion in total or in part to a special cost center within Fund 010, Classroom Facilities. The deposit in a separate capital and maintenance set aside account counts toward meeting the required capital and maintenance set aside deposit. Deposits in excess of the required deposit should be reported as ~~*designated*~~ *committed, assigned, or restricted* fund balance as appropriate under the circumstances described in GASB 54 for external financial reporting purposes.

• Knowledge and Training of personnel • Tickler Files/Checklists • Presence of an effective accounting system • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

The disposition of the budget reserve should have been audited in 2001. Refer to the permanent file if the school district still maintains a reserve, and test for adherence to the school district's chosen plan of disposition. Compare what the school district has done with the reserve assets during the period of the current audit with the school district's disposition plan.

Vouch to determine whether any BWC balance spent during the current audit period was used in accordance with the board's resolution and solely:

- to offset a budget deficit (must establish an ORC 5705.13 (A) budget reserve with the balance subject to the 5% limitation);
- for school facility construction, renovation, or repair;
- for textbook or instructional materials, including science lab equipment;
- for purchase of school buses; or
- for professional development of teachers

For BWC balances not retained in an ORC 5705.13(A) budget reserve and not deposited into the capital or textbook set-asides, determine whether the school district has established procedures to demonstrate that BWC balances are used for permitted purposes (e.g. use of a special cost center within the general fund)

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Audit Program - A
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

If a school district elected to apply the pre-July 1, 2001 base calculation, use Audit Program D.

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref.
1.	Testing note accuracy.			
a.	Obtain the school district's draft set aside note and supporting documentation.			
b.	Foot and crossfoot the note.			
c.	Foot and crossfoot the client's underlying calculations (if any).			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Test the annual reserve calculation by multiplying the **percentage**[37] by the "**formula amount**"[38] and multiplying the result by the school district's "**student population**"[39]. The **preceding year's** "formula amount" and "student population" should be used for this calculation: [(% x Formula Amount) x Student Population]			
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education's website: http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEPrimary.aspx?Page=2&TopicID=990&TopicRelationID=1353			
4.	Vouch selected qualifying[27] expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-01 (G):			
a.	Allowable: textbooks, instructional materials, instructional supplies, instructional software, equipment directly associated with student instruction.			
b.	Unallowable: uses not directly associated with student instruction, such as, employee labor cost, purchased services (except computer maintenance), facilities maintenance, and administrative items.			
5.	Trace "offsets" [25] to appropriate documentation supporting the client's calculations and assertions and to and from the current year working papers:			

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[37] The percentage is set at 3% by statute, though the Auditor of Sate has been given some discretion to establish alternate percentages. As of the date of this document no alternative percentage has been established.

[38] *Formula amount* is the base cost per pupil as determined by Ohio Rev. Code Sections 3317.02 and .012. ~~For FY 2004, the amount is $5058; for FY 2005, the amount is $5,169; for FY 2006, the amount is $5,283; for FY 2007, the amount is $5,403;~~ For FY 2008, the amount is $5,565; and for FY 2009 <u>through FY 2011</u>, the amount is $5,732.

[39] *Student population* is a defined term. The Ohio Department of Education is responsible for calculating the student population based on information submitted by the school district (3315.17(F)).

Audit Program - A
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref.
a.	Permanent improvement levy authorized by Ohio Rev. Code § 5705.21 to the extent the proceeds are restricted by the school district Board to expenditure for textbooks, instructional software, and instructional materials, supplies and equipment			
b.	Proceeds of securities whose use is restricted to expenditures for textbooks, instructional software, and instructional materials, supplies and equipment.			
c.	Proceeds of school district income tax levied under Ohio Rev. Code Chapter 5748 for permanent improvements, to the extent the proceeds are restricted to expenditures for textbooks, instructional materials, supplies and equipment.			
d.	Other revenue sources identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State.[40]			
e.	Expenditures in excess of the current year set-aside requirements and the carry over balance in the textbooks and instructional materials set-aside may be carried forward to reduce future years' textbooks and instructional materials set-aside requirements. Contributions in excess of required set-asides may also be carried forward to offset future year(s) textbook and instructional materials set-aside requirements.			
6.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing Support if the client refuses to make necessary changes.			
7.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the reserve.			

[40] As of the date of this audit program, the AOS has identified no such revenues.

Audit Program – B
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

If the school district elected to apply the pre-July 1, 2001 base calculation, use Audit Program E.

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref
1.	Testing note accuracy.			
a.	Obtain the school district's draft set aside note and supporting documentation.			
b.	Foot and crossfoot the note			
c.	Foot and crossfoot the client's underlying calculations (if any).			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Test the annual reserve calculation by multiplying the **percentage**[41] by the "**formula amount**[28]" and multiplying the result by the school district's "**student population**[29]". The **preceding year's** "formula amount" and "student population" should be used for this calculation: [(% x Formula Amount) x Student Population]			
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education's website: http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEPrimary.aspx?Page=2&TopicID=990&TopicRelationID=1353			
4.	Vouch selected qualifying[27] expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-02 (G):			
a.	Allowable: acquisition price; direct materials; labor and overhead for a qualifying project; project professional fees; site prep; demolition\removal of existing assets; freight and handling; capital lease principal.			
b.	Unallowable: expenditures not for acquisition, replacement, enhancement, maintenance and repair of permanent improvements (property, asset, or improvements with a useful life of 5 years or more).			
5.	Trace "offsets" [25] to appropriate documentation supporting the client's calculations and assertions and to and from the current year's working papers (excess offsets do not carry forward):			

[41] The percentage is set at 3% by statute, though the Auditor of State has been given some discretion to establish alternate percentages. As of the date of this document, no alternative percentage has been established.

Audit Program – B
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

a.	Permanent improvement levy authorized by Ohio Rev. Code §5705.21 to the extent the proceeds are restricted by the school district Board to expenditure for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements[42].			
b.	Proceeds of securities whose use is restricted to expenditures for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.[43]			
c.	Insurance proceeds received as a result of the damage to or theft or destruction of a permanent improvement to the extent a Board of Education places the proceeds in a separate fund for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.			
d.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements.			
e.	Proceeds received from a tax levy authorized by Ohio Rev. Code §3318.06 to the extent the proceeds are available to be used for the maintenance of capital facilities. (Classroom facilities fund 034)[44].			
f.	Proceeds of certificates of participation issued as a part of a lease-purchase agreement entered into under Ohio Rev. Code Section 3313.375.			
g.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements.			
h.	Proceeds of any school district income tax levied under Ohio Rev. Code Chapter 5748 to the extent the proceeds are available for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.			

[42] Proceeds from the sale of securities (tax anticipation notes) issued in anticipation of a permanent improvement levy are an offset in the year of sale. The excess proceeds may be used in future years as an offset up to the amount of the levy proceeds received in that year for repayment (see AOS Bulletin 98-014, Question 15). If the school district uses bond proceeds or bond expenditures to reduce the reserve requirement, the bond proceeds or expenditures should be identified separately from offsets and qualified expenditures in the set aside footnote presentation. For example, a school district might use the captions "Unused Bond Proceeds for Classroom Facilities" or "Expenditure of Bond Proceeds for Classroom Facilities." Additionally, the amount presented for unused bond proceeds or expenditure of bond proceeds in the footnote calculation should be limited to the amount needed to bring the reserve to a zero balance after qualified expenditures and offsets have been applied.

[43] Actual capital expenditures from bond or note proceeds - OR - the proceeds from the related permanent improvement levy or other levy to pay the debt - may be carried forward to offset future years' capital improvements and maintenance reserve set-aside requirements. *Do not count both the expenditures and the debt or levy proceeds. Capital expenditures from grant proceeds are excluded from qualifying expenditures for purposes of calculating the reserve.*

[44] The annual tax levy proceeds of the annual set aside requirements do not accumulate and/or carryover as an offset in future years.

Audit Program – B
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

i.	Money transferred from the general fund (USAS 001) to the permanent improvement fund (USAS 003) is an offset for the current year. If the amount transferred is returned to the general fund, the set aside reserve should be recalculated, taking into account the amount of the transfers returned to the general fund. The amounts transferred required a court order. **This should be reported as a change in the set aside for the current year and not a restatement.**			
j.	Other revenue sources identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State[45].			
6.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing Support if the client refuses to make necessary changes.			
7.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the note.			

[45] As of the date of this audit program, the AOS has identified no such revenues.

Audit Program - D[46]
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Use this audit program if the school district has elected to apply the pre-July 1, 2001 base calculation as discussed in Ohio Compliance Supplement section 1-14

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref
1.	Testing note accuracy.			
a.	Obtain the school district's draft of the set aside note and supporting documentation.			
b.	Foot and crossfoot the note.			
c.	Foot and crossfoot the client's underlying calculations, including the current year required set-aside percentage **(3%)** times the base.			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Trace cash-basis property tax revenue (Ohio Rev. Code Chapter 5705 amounts) to the client's calculations and to and from the prior-year working papers (determine that all audit adjustments and reclassification entries which the auditee agreed to post are properly reflected in the papers) or to other acceptable documentation, such as County Auditor Tax Settlement Sheets:			
a.	General fund property tax amounts			
b.	Emergency levy fund property tax amounts			
c.	Operating revenue from a multi-purpose property tax levy			
d.	Inside millage allocated to a capital projects fund			
e.	Property tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
f.	Payments received in lieu of property taxes			
g.	Proceeds from the sale of delinquent tax liens			
4.	Trace cash-basis income tax revenue (Ohio Rev. Code Chapter 5748 amounts) to the client's calculations and to and from the prior-year working papers or other acceptable documentation, such as remittance advices from the State:			
a.	General fund income tax amounts			
b.	Income tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
c.	School district's share of city income tax based upon a development agreement			
5.	Trace cash-basis formula aid (school foundation) revenue (Ohio Rev. Code §3317.022(A) [non-vocational schools] or §3317.06 [vocational schools]) to the client's calculations and to and from the prior-year working papers or other acceptable documentation:			

[46] Audit Program C was ***Auditing the Budget Reserve***. Most of this no longer applies. The steps that still apply were moved to other programs.

Audit Program – D[46]
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref
a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education's website: http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEPrimary.aspx?page=2&TopicRelationID=990%20			
b.	For "guarantee" school districts, use the amount from line 19 on the fiscal year 6/30/05 Form SF3 (formerly SF-12)[47]			
6.	Vouch selected expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-01 (G):			
a.	Allowable: textbooks, instructional materials, instructional supplies, instructional software, equipment directly associated with student instruction.			
b.	Unallowable: uses not directly associated with student instruction, such as, employee labor cost, purchased services (except computer maintenance), facilities maintenance, administrative items.			
7.	Trace "offsets" to appropriate documentation supporting the client's calculations and assertions and to and from the current year working papers:			
a.	Permanent improvement levy authorized by Ohio Rev. Code § 5705.21 to the extent the proceeds are restricted by the school district Board to expenditure for textbooks, instructional software, and instructional materials, supplies and equipment			
b.	Proceeds of securities whose use is restricted to expenditures for textbooks, instructional software, and instructional materials, supplies and equipment.			
c.	Proceeds of school district income tax levied under Ohio Rev. Code Chapter 5748 for permanent improvements, to the extent the proceeds are restricted to expenditures for textbooks, instructional materials, supplies and equipment.			
d.	Other revenue sources identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State[48].			

[47] This amount is included in a separate column on ODE's web site.

[48] As of the date of this audit program, no such revenues have been identified.

Audit Program - D[46]
AUDITING THE TEXTBOOKS AND INSTRUCTIONAL MATERIAL RESERVE

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref
e.	Expenditures in excess of the current year set aside requirements and the carryover balance in the textbook and instructional materials set aside may be carried forward to reduce future years' textbook and instructional materials set aside requirements. Contributions in excess of required set asides may also be carried forward to offset future year(s) textbook and instructional materials set aside requirements.			
8.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing support if the client refuses to make necessary changes.			
9.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the reserve.			

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

Use this audit program if the school district has elected to apply the pre-July 1, 2001 base calculation as discussed in Ohio Compliance Supplement section 1-14

Step No.	Procedure for Consideration	Done By or N/A	Date Comp	X-Ref
1.	Testing note accuracy.			
a.	Obtain set school district's draft aside note and supporting documentation.			
b.	Foot and crossfoot the note.			
c.	Foot and crossfoot the client's underlying calculations, including the current year required set-aside percentage (3%) times the base.			
2.	Trace beginning of the year balance to prior audited financial statements or working papers.			
3.	Trace cash-basis property tax revenue (Ohio Rev. Code Chapter 5705 amounts) to the client's calculations and to and from the prior year's working papers (determine that all audit adjustments and reclassification entries which the auditee agreed to post are properly reflected in the papers) or other acceptable documentation, such as County Auditor Tax Settlement sheets:			
a.	General fund property tax amounts			
b.	Emergency levy fund property tax amounts			
c.	Operating revenue from a multi-purpose property tax levy			
d.	Inside millage allocated to a capital projects fund			
e.	Property tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
f.	Payments received in lieu of property taxes			
g.	Proceeds from the sale of delinquent property tax liens			
4.	Trace cash-basis income tax revenue (Ohio Rev. Code Chapter 5748 amounts) to the client's calculations and to and from the prior year's working papers or other acceptable documentation, such as State remittance advices:			
a.	General fund income tax amounts			
b.	Income tax receipts allocated to a debt service fund for general fund tax and revenue anticipation debt			
c.	School district's share of city income tax based upon a development agreement			
5.	Trace cash-basis formula aid (school foundation) revenue (Ohio Rev. Code § 3317.022(A) [non-vocational schools] or §3317.06 [vocational schools]) to the client's calculations and to and from the prior year's working papers or other acceptable documentation:			

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

a.	This information is available for each school district and joint vocational school district on the Ohio Department of Education's website: http://www.ode.state.oh.us/GD/Templates/Pages/ODE/ODEPrimary.aspx?page=2&TopicRelationID=990%20			
b.	For "guarantee" school districts, use the amount from line 19 on the fiscal year 6/30/05 Form SF3 (formerly SF-12)[49].			
6.	Vouch selected expenditures charged to the Reserve during the year for compliance with Ohio Admin Code § 3301-92-02 (G):			
a.	Allowable: acquisition price; direct materials; labor and overhead for a qualifying project; project professional fees; site prep; demolition\removal of existing assets; freight and handling; capital lease principal.			
b.	Unallowable: expenditures not for acquisition, replacement, enhancement, maintenance and repair of permanent improvements (property, asset, or improvements with a useful life of 5 years or more).			
7.	Trace "offsets"[25] to appropriate documentation supporting the client's calculations and assertions and to and from the current year's working papers:			
a.	Permanent improvement levy authorized by Ohio Rev. Code §5705.21 to the extent the proceeds are restricted by the school district Board to expenditure for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.[43]			
b.	Proceeds of securities whose use is restricted to expenditures for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements. [43]			
c.	Insurance proceeds received as a result of the damage to or theft or destruction of a permanent improvement to the extent a Board of Education places the proceeds in a separate fund for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements			
d.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements			
e.	Proceeds received from a tax levy authorized by Ohio Rev. Code §3318.06 to the extent the proceeds are available to be used for the maintenance of capital facilities. (Classroom facilities)			
f.	Proceeds of certificates of participation issued as a part of a lease-purchase agreement entered into under Ohio Rev. Code Section 3313.375.			

[49] This amount is included in a separate column on ODE's web site.

Audit Program – E
AUDITING THE CAPITAL IMPROVEMENTS AND MAINTENANCE RESERVE

g.	Proceeds received from the sale of a permanent improvement to the extent the proceeds are paid into a separate fund for the construction or acquisition of permanent improvements.			
h.	Proceeds of any school district income tax levied under Ohio Rev. Code Chapter 5748 to the extent the proceeds are available for the acquisition, replacement, enhancement, maintenance, or repair of permanent improvements.			
i.	Money transferred from the general fund (USAS 001) to the permanent improvement fund (USAS 003) is an offset for the current year. If the amount transferred is returned to the general fund, the set aside reserve should be recalculated, taking into account the amount of the transfers returned to the general fund. The amounts transferred required a court order. **This should be reported as a change in the set aside for the current year and not a restatement.**			
j.	Other revenue source identified by the Auditor of State, in consultation with the Department of Education, in rules adopted by the Auditor of State.[50]			
8.	Read any other information included in the report (e.g., the introductory and statistical sections of a CAFR), and determine whether it is consistent with the note. If the information is materially inconsistent or misstated, consult with Accounting & Auditing Support if the client refuses to make necessary changes.			
9.	Prepare a brief narrative for the working papers that describes the nature, timing, and extent of our tests of the note.			

[50] As of the date of this issuance, the AOS has identified no such revenues.

1-15 Compliance Requirements: Ohio Rev. Code Sections 3316.03, and 3316.031 - School fiscal caution, fiscal watch and fiscal emergency.

Summary of Requirements:

A **fiscal watch** *shall* be declared if any of the following conditions are met:

(1)(a) An operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 8% of the school district's general fund revenue for the preceding fiscal year (such a certification would be prompted by a resolution of the board of education or by a request from the state superintendent of public instruction [Ohio Rev. Code 3313.483]; and

(b) The voters have not approved a levy that would raise sufficient revenue in the next succeeding fiscal year such that (a) above would no longer apply.

OR

(2) The school district has outstanding debt securities [issued under Ohio Rev. Code § 3316.06(A)(4)]and the financial planning and supervision commission has been canceled [under Ohio Rev. Code 3316.16] (this situation deals with a down grade to fiscal watch from fiscal emergency).

OR

(3) The superintendent of public instruction has declared the school district to be under fiscal caution [under Ohio Rev. Code § 3316.031], has found that the school district has not acted reasonably to eliminate or correct practices or conditions that prompted the declaration, and determined the declaration of a state of fiscal watch necessary to prevent further fiscal decline; and

The Auditor of State determines that the decision of the superintendent is reasonable.

A **fiscal watch** *may* be declared if all of the following conditions are met:

(1) An operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 2%, but does not exceed 8%, of the school district's general fund revenue for the preceding fiscal year; and

(2) The voters have not approved a levy that would raise sufficient revenue in the next succeeding fiscal year such that (1) above would no longer apply, and;

(3) The Auditor of State determines there is no reasonable cause for the deficit or that the declaration of fiscal watch is necessary to prevent further fiscal decline.

A **fiscal emergency** *shall* be declared if any of the following conditions are met:

(1)(a) A certified operating deficit exceeds 15% of the general fund revenue for the preceding fiscal year (such a certification would be prompted by a resolution of the board of education or by a request from the state superintendent of public instruction [Ohio Rev. Code § 3313.483]; and

(b) The voters have not approved a levy that would raise sufficient revenue in the next succeeding fiscal year such that (a) above would no longer apply.

OR

(2) The school district board fails to submit a plan acceptable to the state superintendent of public instruction within 120 days of being declared in a state of fiscal watch.

OR

(3) The superintendent of public instruction has reported that the school district is not materially complying with the provisions of an original or updated financial plan (related to a fiscal watch declaration) and the state superintendent has determined the declaration of a state of fiscal emergency necessary to prevent further fiscal decline.; and

The Auditor of State determines that the decision of the superintendent is reasonable.

OR

(4) A declaration of fiscal emergency is required by division (D) of section 3316.04 of the Ohio Rev. Code (that is, if the school district is currently in a declared Fiscal Watch and refinances or restructures certain debt).

A **fiscal emergency** *may* be declared if all of the following conditions are met:

(1) An operating deficit has been certified for the current fiscal year by the Auditor of State and the deficit exceeds 10%, but does not exceed 15%, of the school district's general fund revenue for the preceding fiscal year; and,

(2) The voters have not approved a levy that would raise sufficient revenue in the next succeeding fiscal year such that (1) above would no longer apply.

(3) The auditor of state determines that a declaration of fiscal emergency is necessary to correct the school district's financial problems and to prevent further fiscal decline.

In addition to fiscal watch and fiscal emergency, Ohio Rev. Code § 3316.031 establishes a third category of fiscal distress called "**fiscal caution**". In accordance with rules established under this category, the Auditor of State is responsible for referring certain deficiencies to the Ohio Department of Education. The following is ODE's fiscal caution criteria:

Failure to correct any of the following situations could eventually lead to the Auditor of State declaring a school district to be in a state of Fiscal Watch or Fiscal Emergency.

1. When a school district fails to submit or update a five-year projection as required by section 5705.391 of the Ohio Rev. Code or by Administrative Rule 3301-92-04.
2. When there is a potential current year deficit with no acceptable plan in place to avoid the projected deficit.

3. When a school district notified under division (A) of section 5705.391 of the Ohio Rev. Code fails to submit an acceptable plan to address a **potential future year deficit** within the timeframe allowed.
4. Whenever the Department discovers any other "fiscal practices or conditions" that could lead to a declaration of Fiscal Watch or Emergency through the examination of a school district's five-year projection required under division (B) of section 5705.301 of the Ohio Rev. Code.
5. When the Auditor of State certifies a deficit between 2% and 8% of prior year general fund revenue and elects not to place the school district in Fiscal Watch, the school district must be placed in Fiscal Caution as required by section 3316.031(B)(3) of the Ohio Rev. Code.
6. When the Auditor of State declares that a school district's financial records are unauditable.
7. When the Auditor of State reports that a school district has not complied with section 5705.412 of the Ohio Rev. Code by attaching a signed certificate to an appropriation measure, qualifying contract or salary schedule.
8. When the Auditor of State identifies material weaknesses, significant deficiencies, direct and material legal noncompliance or management letter comments which, in the opinion of the Auditor, the aggregate effect of all such reported issues has an significant effect on the financial condition of the school district.

Financial Recovery Plan
School districts in fiscal watch and fiscal emergency are required to prepare a financial recovery plan and submit it to the Superintendent of Public Instruction at the Ohio Department of Education. These plans must be updated annually. (Ohio Rev. Code Sections 3316.04(C) and 3316.06(A))

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

If the school district is currently in fiscal watch or fiscal emergency, review the school district's recovery plan. An effective recovery plan should identify the steps necessary for the school district to take to fully recover from fiscal watch or fiscal emergency and identify target dates to achieve each component of the recovery plan.

Through inquiry and examination of accounting records, determine whether the district is generally complying with key statutory requirements to follow the plan are not being violated by the school district.

Determine whether the school district's plan was updated annually.

While performing audit work, be alert to information relative to the current fiscal year which may suggest the school district will be unable to open, or remain open, for instruction on all days set forth in its adopted school calendar, pay all obligated expenses (current year operating deficit is reasonably possible), or otherwise suggests one of the fiscal distress conditions may exist. Such information might come to the auditor's attention while:

- Reviewing minutes
- Making audit inquiries
- Reviewing audit period and current year interim financial reports
- Reviewing correspondence with legal counsel
- Reviewing the matters for attention form and draft audit report
- Performing other such audit procedures

If during audit work and based on knowledge of the school district, such information does come to the auditor's attention, the engagement chief auditor should be contacted. If after evaluation the Chief Auditor concludes there are or may be significant financial problems, the chief auditor should contact the Chief Deputy Auditor or his designee.

Auditor of State Audit Memo 2001-09 provides additional guidance regarding fiscal caution. (Note that ODE has changed some of the criteria ADAM 2001-09 listed for determining a fiscal caution. The amended fiscal caution criteria appear above. Otherwise, ADAM 2001-09 still applies.)

If such information comes to the attention of an IPA during an audit, contact the regional chief auditor.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Section C: Additional Public Library Requirements

1-16 Compliance Requirements: Ohio Rev. Code Section 5705.23 - Special levy for library purposes; submission to electors.

Summary of Requirements: The board of library trustees of any county, municipal corporation, school district, or township public library by a vote of two-thirds of all its members may pass a resolution indicating a desire to raise taxes outside the ten-mill limitation. The resolution declares it necessary to levy a tax for either current expenses of the library or for the construction of any specific permanent improvement or class of improvement which the board of library trustees is authorized to make or acquire and which could be included in a single bond issue.

The question of this additional tax levy is to be submitted by the taxing authority of the political subdivision to whose jurisdiction the board is subject, to the electors of the subdivision or, if the resolution so states, to the electors residing within the boundaries of the library district.

The tax levy may be in effect for any specified number of years or for a continuing period of time, as set forth in the resolution.

The library may borrow up to 50% of the total estimated proceeds of a current expense levy to be collected during the first year of the levy.

The Library may issue Anticipation Notes in an amount not to exceed 50% of the total estimated proceeds of the levy for permanent improvements to be collected in each year over the period of ten years after the issuance of such notes.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Effectiveness of Oversight Government's Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Trace resolutions to the minutes, noting that they were passed by at least two-thirds of all board members.

Obtain a copy of the taxing authority's resolution(s) and agree it to the resolution(s) certified to it by the library trustees.

Vouch a representative selection of expenditures made with tax levy proceeds and determine that the proceeds were being used for the purpose(s) stated in the resolution(s).

If the library issued anticipation notes, compare the proceeds from the notes to the total anticipated proceeds of the levy. The note proceeds should not exceed 50% of the levy.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Section D: Generic Requirements for Revenues, Funds, and Transfers

1-17 Compliance Requirements: Ohio Rev. Code Sections 5705.02, 5705.07 and 5705.18 and Article XII, Section 2 of the Constitution of the State of Ohio - Ten mill limitation. (These tests apply only to years in which inside or outside millage increases. That is, you need not test this requirement for years in which there have been no new levies as long as there is documentation in the permanent file of voter approval for all outside millage.)

Summary of Requirements: Generally, the aggregate amount of taxes that may be levied on any taxable property in any one year is not to exceed ten mills on each dollar of tax valuation. (Charter governments may use a different limit authorized in their charter.) This limitation is known as the *ten mill limitation*, or *inside millage*. The ten mill limitation may only be exceeded (a) by a vote of the people, or (b) by a charter that provides for a higher limitation which may be levied without a vote of the people.

POSSIBLE NONCOMPLIANCE RISK FACTORS:

Note: In assessing the risk of noncompliance, auditors should consider whether the government has obtained bond counsel for recent debt issuances. Typically, bond counsel will evaluate (and possibly opine) on a government's compliance with the ten-mill limitation laws. A recent opinion or evaluation by bond counsel (especially during or near the current audit period) may lower the risk of noncompliance.

However, governments that can issue general obligation bonds without a vote of the people may be at a greater risk for noncompliance if they are already nearing the ten-mill limitation. For example, assume a subdivision within a county is at 90% of the ten-mill limitation and the county auditor subsequently reappraises and lowers property values within the subdivision by 11%. The reappraisal would cause the subdivision to exceed the ten-mill limitation.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Effectiveness of County Budget Commission's/County Auditor's Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Inspect the tax budget for the year and determine if the ten mill limitation was exceeded.

If the ten mill limitation was exceeded, inspect the document entitled *Resolution Accepting Amounts and Rates as Determined by the Budget Commission and Authorizing the Necessary Tax Levies and Certifying Them to the County Auditor*, indicating outside millage was authorized by a vote of the people or was authorized by appropriate charter provisions. Secure copies for the permanent files, if appropriate. (These tests apply only to years in which inside or outside millage increases. That is, you need not test this requirement for years in which there have been no new levies as long as there is documentation in the permanent file of voter approval for all outside millage.)

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-18 Compliance Requirement: Ohio Rev. Code Section 5705.09 Establishing funds.

Summary of Requirements: Each subdivision must establish the following funds:

- General fund;
- Sinking fund whenever the subdivision has outstanding bonds other than serial bonds;
- Bond retirement fund, for the retirement of serial bonds, notes, or certificates of indebtedness;
- A special fund for each special levy;
- A special bond fund for each bond issue;
- A special fund for each class of revenues derived from a source other than the general property tax, which the law requires to be used for a particular purpose;
- A special fund for each public utility operated by a subdivision;
- A trust fund for any amount received by a subdivision in trust.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Tickler Files/Checklists • Legislative and Management Monitoring • Periodic Reviews of Fund Ledgers • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Compare funds on the subdivision's chart of accounts with funds that existed in the prior audit period. For any new funds, apply the following steps:

- Inspect authority (e.g., board resolution) to establish the fund.
  - *Note: The legislative body of a local government may always specify, for management purposes, how they want specific resources spent. Absent any statutory restrictions on such resources, an internal purpose restriction does not*

justify the creation of a separate fund. New funds must be created based on the guidelines in AOS Bulletin 1999-006.

- If a fund is not authorized under Ohio Rev. Code Section 5705.09 or another Ohio Rev. Code section and the entity did not receive Auditor of State approval to establish the fund, propose the necessary findings for adjustment to remove the unauthorized fund(s) and place the activity in the General Fund or other appropriate fund. *(We will not apply this retroactively to funds existing from prior audit periods.)*

Note: Establishing funds required in this ORC Section does **not** require AOS approval.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-19 Compliance Requirement: Ohio Rev. Code Sections 5705.05-.06, 5705.10, 5705.14(E), 5731.48, and 3315.20(A). Distributing revenue derived from tax levies, proceeds from sale of bond issue, proceeds from sale of permanent improvement, and depositing estate taxes into the general fund

Summary of Requirements:

- All revenue derived from the following must be paid into the general fund [R.C. § 5705.10, unless otherwise indicated below]:
  - the general levy for current expense within the ten mill limitation,
  - any general levy for current expense authorized by vote in excess of the ten mill limitation, and from
    - HB 458 precludes counties from using general levy revenue for current expenses for the construction, reconstruction, resurfacing, and repair of roads and bridges. [ORC 5705.05 & .06]. Effective for fiscal year 2009, other entities (except counties) may transfer general levy revenue for current expenses to Road and Bridge Funds via a resolution passed by a simple majority of the governing authority [ORC 5705.14(E)] or may pay for these expenses directly from the General Fund [ORC 5705.05 & .06].[56]
  - sources other than the general property tax, unless its use for a particular purpose is prescribed by law (see the circumstances requiring a separate fund in the preceding OCS Step)
  - Estate taxes received by a township or municipal corporation under R.C. § 5731.48
    - ***Exceptions:***
      - Villages: (A)(2) To the general revenue fund of a village or to the board of education of a village, for school purposes, as the village council by resolution may approve;
      - Townships: (A)(3) To the general revenue fund or to the board of education of the school district of which the township is a part, for school purposes, as the board of township trustees by resolution may approve, in the case of a township.
      - Municipal Corporations: (D) If a municipal corporation is in default with respect to the principal or interest of any outstanding notes or bonds, one half of the [estate] taxes distributed under this section shall be credited to the sinking or bond retirement fund of the municipal corporation, and the residue shall be credited to the general revenue fund.

- All revenue derived from general or special levies for debt charges which is levied for the debt charges on serial bonds, notes, or certificates of indebtedness having a life less than five years, must be paid into the bond retirement fund. All such revenue which is levied for the debt charges on all other bonds, notes, or certificates of indebtedness is to be paid into the sinking fund [R.C. § 5705.10(B)].

- All revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made [R.C. § 5705.10(C)].[51]

[51] HB 530 permits townships receiving distributions from the Gasoline Excise Tax Fund in the state treasury to use that money to pay debt service on State Infrastructure Bank obligations. (R.C. 5531.10 and 5735.27)

- All revenue derived from a source other than the general property tax and which the law prescribes, shall be used for a particular purpose is to be paid into a special fund (see step 1-18 for a listing of possible "special" funds) for such purpose [R.C. § 5705.10].

- All proceeds from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code Section 133.01, *except premium and accrued interest*, are to be paid into a special fund for the purpose of such issue. Any interest earned on money in the special fund may be used for the purposes for which the indebtedness was authorized, or may be credited and used for an authorized fund or account. [R.C. § 5705.10]

- The premium and accrued interest received from the sale of public obligations or fractionalized interests in public obligations as defined in Ohio Rev. Code section 133.01 is to be paid into the subdivision's sinking fund or the bond retirement fund [R.C. § 5705.10(E)].

- If a permanent improvement of the subdivision is sold, the amount received from it ~~may~~ shall be paid into the sinking fund, the bond retirement fund, or into a special fund for the construction or acquisition of permanent improvements [R.C. § 5705.10(F)].[52] However, after a county home has been closed as provided by section 5155.31 of the Revised Code, the board of county commissioners may sell or lease any part of the county home farm, and all receipts from such sales or leases shall be paid to the county treasurer and credited to the general county fund, and shall be subject to appropriation for such purposes as the board decides [R.C. § 5155.33].

- Proceeds from the sale of a public utility are to be paid into the sinking fund or bond retirement fund to the extent necessary to provide for the retirement of the outstanding indebtedness incurred in the construction or acquisition of such utility [R.C. § 5705.10(F)].

- Proceeds from the sale of property other than a permanent improvement are to be paid into the fund from which such property was acquired or is maintained, or if there is no such fund, into the general fund [R.C. § 5705.10(F)].

Money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund cash balance[53] indicates that money from one fund was

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[52] HB385, in Ohio Rev. Code Section 5705.10(F) & (G), created an exception for certain townships, with a population greater than 15,000, having used township tax increment financing (TIF) for real property in the township according to the most recent federal decennial census. These townships may pay proceeds from the sale of a permanent improvement of the township into its general fund if both of the following conditions are satisfied:

- The Township fiscal officer determines that all foreseeable "public infrastructure improvements" to be made in the township in the 10 years immediately following the date the permanent improvement is sold will have been financed through township TIF on or before the date of the sale. Written certification of this determination must be made part of the township's records.
- The permanent improvement being sold was financed entirely from moneys in the township's general fund.

[53] There is no legal authority addressing whether encumbrances are to be included when analyzing fund balances. R.C. 5705.10 does not explicitly prohibit an entity from having a negative fund balance. Instead, we cite to R.C. 5705.10 because restricted funds were used for other purposes. Therefore, do not include encumbrances when analyzing compliance with R.C. 5705.10.

used to cover the expenses of another fund [R.C. § 5705.10(H)]. However, Ohio Rev. Code section 3315.20 provides an allowable exception for school districts. Effective 3/30/07, a school district may have a deficit in any special fund (see step 1-18 for a listing of possible “special” funds) of the school district, but only if all of the following conditions are satisfied:

- The school district has a request for payment pending with the state sufficient to cover the amount of the deficit [R.C. § 3315.20(A)]
- There is a reasonable likelihood that the payment will be made [R.C. § 3315.20(A)]
- The unspent and unencumbered balance in the school district’s general fund is greater than the aggregate of deficit amounts in all of the school district’s special funds. [R.C. § 3315.20(B)]

Additionally, AOS believes it is illogical to cite 5705.36 when a school district’s actual available resources fall below annual appropriations if all exceptions from ORC 3315.20 above are met.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Periodic Reviews/Comparisons of Budgeted and Actual Revenues • Independent Inspection/Comparison of Revenues to Source Documents • Tickler Files/Checklists • Legislative and Management Monitoring • Management’s identification of changes in laws and regulations • Management’s communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Trace a representative number of receipts from tax levies, bond issues, and sales of permanent improvements, to the funds. Note: Because recording receipts to an incorrect opinion unit is a misstatement, auditors should test these transactions to the extent required to reasonably assure there was no material misstatement. Also, auditors should consider reporting noncompliance for misposting to incorrect funds (rather than opinion units) as described in the ***Finding for Adjustment*** guidance in the ***Ohio Compliance Supplement Introduction***.

Trace selected estate tax proceeds to the credit of the municipality’s or township’s general fund. If in default on bonds or notes, municipalities should apportion 50% of the net proceeds each to the debt service and general funds.

Trace significant interest earned on bond proceeds to the credit of (1) a fund used for purposes for which the debt was authorized, or (2) the general fund. [Section 5705.10(E)] (Note: Proceeds exclude accrued interest and premiums, which the entity must credit to the sinking or bond retirement fund.) Also note that this interest may be subject to Federal arbitrage regulations—AOS staff should refer to the arbitrage procedures in the specimen debt audit program.

Inspect accounting ledgers or month end reports as of fiscal year end and for selected periods during the year. Determine whether significant negative fund balances existed.

> *Note: When a fund ends the year with negative cash, it is inappropriate to present an "advance" on the budgetary statement to eliminate the negative cash fund balance. Even though, in substance, the government has made an advance, it is not acceptable to "hide" noncompliance by creating an advance not properly authorized by the government. However, a government should post an interfund receivable and payable to eliminate the negative cash ~~fund~~ balance on the GAAP financial statements. The government should select the fund to report the receivable.*

If negative fund balances are identified for a school district, determine whether the school district met the allowable exception conditions above by:

- Inspecting the school district's Project Cash Request (PCR) forms. In most cases, these forms will be available for viewing online in ODE's Comprehensive Continuous Improvement Plan (CCIP) application at http://ccip.ode.state.oh.us/ccip/default.asp.
- Computing the unspent and unencumbered balance in the school district's general fund and vouching whether it is greater than the aggregate of deficit amounts in all of the school district's special funds.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-20 Compliance Requirement: Ohio Rev. Code Section 5705.12 Permission to establish funds.

Summary of Requirement: Taxing authorities should establish the funds described in Ohio Rev. Code Sections 5705.09, 5705.121, 5705.13, 5705.131, 5709.43, 5709.75, and 5709.80 when applicable. Establishing these funds (or other funds statutes mandate) does ***not*** require Auditor of State authorization.

However, should a taxing authority desire to establish other funds not authorized in the ~~above~~ ORC ~~sections~~, they must obtain ***approval of the Auditor of State***. The subdivision may provide by ordinance or resolution that money derived from special sources other than the general property tax shall be paid directly into such funds.

It is necessary to request the Auditor of State's permission to establish any fund not specifically authorized by statute or when the purpose of the fund is not identified in the Ohio Rev. Code, such as (but not limited to) §5705.09 (A) - (H). Situations requiring Auditor of State approval include:

- When management wishes to create a new fund in order to capture additional financial information about a specific source of revenue or a specific activity;
- When the fund will account for restricted gifts or bequests that will not be held in trust; and
- When management wants to impose internal restrictions on the use of otherwise unrestricted resources.

In some circumstances, the AOS deems the use of additional funds unnecessary and will not approve the request. See AOS Bulletin 99-006 for additional information.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Periodic Reviews of Fund Ledgers • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

If there is evidence new funds were established during the audit period, trace funds' establishments to the minutes. Determine code section under which established.

If not established under State statute, inspect Auditor of State approval letters for funds created during the current audit period.

(As noted in step 1-18, if a fund is not authorized under Ohio Rev. Code Section 5705.09 or another Ohio Rev. Code section and the entity did not receive Auditor of State approval to establish the fund, propose the necessary findings for adjustment to remove the unauthorized fund(s) and place the activity in the General Fund or other appropriate fund. *(We will not apply this retroactively to funds existing from prior audit periods.))*

Read ordinances and resolutions regarding how monies derived from special sources are to be used. Trace a representative number of receipts into the funds or accounts required by the ordinances or resolutions.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-21 Compliance Requirements: Ohio Rev. Code Sections 5705.05-.06, 5705.14, 5705.15, and 5705.16 Transfer of funds *(Refer to Appendix A to Chapter 1 for a more detailed discussion on what constitutes a "transfer" under Ohio Rev. Code Sections 5705.14 - .16.)*

Summary of Requirements: No transfer can be made from one fund of a subdivision to any other fund, except as follows:[54]

- The unexpended balance in a bond fund [i.e. a capital project fund financed with bond proceeds] that is no longer needed for the purpose for which such fund was created shall be transferred to the sinking fund or bond retirement fund from which such bonds are payable. [R.C. § 5705.14(A)]

- The unexpended balance in any specific permanent improvement fund, other than a bond fund, after the payment of all obligations incurred in the acquisition of such improvement, shall be transferred to the sinking fund or bond retirement fund of the subdivision. However, if such money is not required to meet the obligations payable from such funds, it may be transferred to a special fund for the acquisition of permanent improvements, or, with the approval of the court of common pleas of the county in which such subdivision is located, to the general fund of the subdivision. [R.C. § 5705.14(B)]

- The unexpended balance in the sinking fund or bond retirement fund of a subdivision, after all indebtedness, interest, and other obligations for the payment of which such fund exists have been paid and retired, shall be transferred, in the case of the sinking fund, to the bond retirement fund, and in the case of the bond retirement fund, to the sinking fund. However, if the transfer is impossible by reason of the nonexistence of the fund to receive the transfer, the unexpended balance may be transferred to any other fund of the subdivision with the approval of the court of common pleas of the county in which such division is located. [R.C. § 5705.14(C)]

- The unexpended balance in any special fund, other than an improvement fund, may be transferred to the general fund or to the sinking fund or bond retirement fund after the termination of the activity, service, or other undertaking for which such special fund existed, but only after the payment of all obligations incurred and payable from such special fund. [R.C. § 5705.14(D)]

- Money may be transferred from the general fund to any other fund of the subdivision [R.C. § 5705.14(E)]. Note: OAG Opinion 89-075 requires a governing board resolution passed by a simple majority of the board members to transfer funds.[55]

    - However, revenue derived from a general levy for current expenses should not be used to pay debt charges [ORC 5705.05, 1981 Op. Atty Gen. No. 81-035]. Therefore, auditors should be alert for transfers from the General Fund to a Debt Service Fund, or other fund, to retire debt. Governments must be able to support that such transfers were made without the use of revenue derived from inside

[54] GASB 2300.120 (and therefore OCBOA presentations) requires certain disclosures regarding the amounts and purposes of transfers in the notes to the financial statements.

[55] AOS interprets this requirement to mean that a governing board may approve interfund transfers from the general fund to other funds of the subdivision within its annual appropriation measure provided that the measure was passed by a simple majority of the board members.

millage. Generally, revenues derived from all other sources in the General Fund may be used to retire debt.

- HB 458 precludes counties from transferring general levy revenue for current expenses to other county funds for the construction, reconstruction, resurfacing, and repair of roads and bridges. [ORC 5705.05 & .06]. Effective for fiscal year 2009, other entities (except counties) may transfer general levy revenue for current expenses to Road and Bridge Funds via a resolution passed by a simple majority of the governing authority [ORC 5705.14(E)].[56]

➢ Moneys retained by a county in accordance with Ohio Rev. Code Section 4501.04 (auto registration distribution fund), or in accordance with Ohio Rev. Code Section 5735.27 (gasoline excise tax fund), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable. [R.C. § 5705.14(F)]

➢ Moneys retained or received by a municipal corporation under Ohio Rev. Code Section 4501.04 (motor vehicle license tax), or division (A) (1) or (2) of Ohio Rev. Code Section 5735.27 (motor vehicle fuel excise taxes), may be transferred from the fund into which they were deposited to the sinking fund or bond retirement fund from which any principal, interest, or charges for which such moneys may be used is payable. [R.C. § 5705.14(G)]

➢ After payment of the expenses of conducting and managing the water works, any surplus of a municipal corporation's water fund may be applied to the repairs, enlargement, or extension of the works or of the reservoirs, the payment of the interest of any loan made for their construction, or for the creation of a sinking fund for the liquidation of the debt. In those municipal corporations in which water works and sewerage systems are conducted as a single unit, under one operating management, a sum not to exceed ten per cent of the gross revenue of the water works for the preceding year may be taken from any surplus remaining after all of the preceding purposes have been cared for and may be used for the payment of the cost of maintenance, operation, and repair of the sewerage system and sewage pumping, treatment, and disposal works and for the enlargement or replacement thereof. Each year a sum equal to five per cent of the gross revenue of the preceding year shall be first retained from paid surplus as a reserve for waterworks purposes. The amount authorized to be levied and assessed for waterworks purposes shall be applied by the legislative authority to the creation of the sinking find for payment of any indebtedness incurred for the construction and extension of water works and for no other purposes; provided, where such municipal corporation does not operate or maintain a water works or a sewage pumping, treatment, and disposal works, any or all such surplus may be transferred to the general fund of the municipal corporation in the manner provided for in sections 5705.15 and 5705.16 of the Revised Code[57]. [RC § 743.05]

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[56] For entities other than counties, transfers from the General Fund to the Road and Bridge Fund or direct payments from the General Fund for construction, reconstruction, resurfacing, and repair of roads and bridges during fiscal years 2007 or 2008 will be subject to a potential *Finding for Adjustment*. Such expenditures were clearly prohibited under the statute during these periods.

[57] In other words, if there is an excess in the water works fund and the municipality has its own water works operation, the excess can only be used for expenses related to the operation, maintenance, or expansion of the waterworks. Not all municipalities have their own waterworks system. Therefore, some municipalities may provide water to their residents by obtaining the water from another source. Where this is the case, if

- Money may be transferred from the County Developmental Disabilities general fund to the County Developmental Disabilities capital fund established under Ohio Rev. Code Section 5705.091, or to any other fund created for purposes of the County Board of Developmental Disabilities so long as it is spent for the particular purpose of the transfer. An unexpended balance in an account may be transferred back to the County Developmental Disabilities general fund. Transfers shall be done by resolution of the Board of County Commissioners. [R.C. §5705.14(H)]

- Money may be transferred among various funds and accounts from which a loss was directly attributable to allocate insurance and self insurance program costs, including deductibles, under Ohio Rev. Code sections 2744.08 and 2744.082. If a subdivision makes such an allocation or requires the payment of deductibles from specific funds or accounts, the subdivision's fiscal officer, pursuant to an ordinance or resolution of the subdivision's legislative authority, must transfer amounts equal to those costs or deductibles from the funds or accounts to the subdivision's general fund if both of the following apply:

  (1) the subdivision requests payment from the employee responsible for the funds or accounts for those costs or deductibles [R.C. § 2744.082(A)(1), and
  (2) the employee receiving the request fails to remit payment within 45 days after the date the request is received [R.C. § 2744.082(A)(2)].

- Except in the case of transfers from the general fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the general fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for general fund transfers though a resolution passed by a simple majority is required. A simple majority constitutes a quorum of greater than 50% of the members.) [RC 5705.14 & .16]

Per 5705.15 & .16: In addition to the transfers listed above, which Ohio Rev. Code Section 5705.14 authorizes, the taxing authority of any political subdivision, with the approval of the ~~Tax Commissioner and of the~~ Court of Common Pleas[58], may transfer from one fund to another any public funds under its supervision, ***except*** the proceeds or balances of:

- loans,
- bond issues,
- special levies for the payment of loans or bond issues,
- the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, and
- the proceeds or balances of any license fees imposed by law for a specified purpose.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Periodic Reviews/Comparisons of Budgeted and Actual Transfers		

(after satisfying expenses related to furnishing water) there is an excess, the municipality may transfer the excess to its general fund.

[58] Under R.C. 5705.16, approval of the Tax Commissioner is also required in certain circumstances.

• Independent Inspection/Comparison of Transfers to Source Documents • Knowledge and Training of personnel • Presence of Effective Accounting System • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Note: Transfers fail the "existence" assertion unless they satisfy the aforementioned legal requirements. Therefore, noncompliant transfers represent misstatements and may require findings for adjustment. See finding for adjustment guidance in the Ohio Compliance Supplement *Introduction*.

Inspect documents authorizing transfers during the audit period and determine that transfers involving balances described below met the requirements above:

- Unexpended bond balance;
- Permanent improvement balance;
- Bond retirement;
- Special fund;
- Auto registration;
- Resolution;
- Municipal corporation;
- Developmental disabilities.

Determine if any significant transfers were made from the proceeds or balances of:

- loans,
- bond issues,
- special levies for the payment of loans or bond issues,
- the proceeds or balances of funds derived from any excise tax levied by law for a specified purpose, or
- the proceeds or balances of any license fees imposed by law for a specified purpose.

Determine if selected transfers were authorized by vote of the governing board as described above.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-22 Compliance Requirements: Though no statutory provisions directly address inter-fund *advances*, the following requirements are in part derived from Ohio Rev. Code Sections: 5705.10 (restriction on the purpose for which funds may be used); 5705.14, 5705.15, and 5705.16 (transfer of funds); 5705.39 (appropriations limited to estimated resources); 5705.41 (restriction on appropriation/ expenditure of money); and 5705.36 (certification of available revenue). Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

Note: This section does not apply when a subdivision purchases its own debt with its debt service fund cash, pursuant to Ohio Rev. Code 133.29. See AOS Bulletin 97-01, Ohio Rev. Code 133.03 and 133.29, and Appendix A of the OCS ~~page 84 of the 2005 GAAFR~~ for additional guidance on legal and accounting requirements applicable to intra-entity borrowing. Ohio Compliance Supplement Chapter 3 describes this matter further.

Summary of Requirements: Inter-fund cash advances may be a desirable method of resolving cash flow problems without the necessity of incurring additional interest expense for short-term loans and to provide the necessary "seed" for grants that are allocated on a reimbursement basis. The intent for cash advances is to require repayment within the current or succeeding year. Inter-fund cash advances are subject to the following requirements:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Sections 5705.14 to 5705.16 of the Ohio Rev. Code. Advances, on the other hand, *temporarily* reallocate cash from one fund to another and involve an expectation of repayment;

- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;

- ~~The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement~~ The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor's fund resources; and

- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
  - A specific statement that the transaction is an advance of cash, and
  - An indication of the money (fund) from which it is expected that repayment will be made.

- When a fund ends the year with negative cash, it is not appropriate to present an *advance* on the budgetary statement to eliminate the negative cash fund balance. Even though, in substance, the government has made an advance, it is not acceptable to "hide" noncompliance by creating an advance not properly authorized by the government. However, the government should post an interfund receivable and payable to eliminate the negative cash balance on the GAAP financial statements. The government should select the fund to report the receivable.

Other Budgetary Considerations

The advances-out (initial loan and repayment) in the creditor (loaning) and debtor (borrowing) funds do not require appropriation as advances represent temporary allocations of resources. However, an amended official certificate of estimated resources should be obtained to reflect the reduced fund balance in the creditor fund and the increased fund balance in the debtor fund. Creditor fund appropriations must be evaluated based on the reduced estimated resources, and appropriation reductions may be required. Prior to obligation of advanced funds, the debtor fund must have sufficient appropriations to cover the anticipated expenditures.

Additionally, when a cash advance is outstanding at the beginning of a fiscal year in which repayment is expected, an adjustment is required to the total resources available for expenditure in the creditor and debtor funds. The unencumbered cash balance of the creditor fund must be increased by the amount of repayment expected during the fiscal year to produce the "carryover balance available for appropriation." Similarly, the unencumbered cash balance in the debtor fund must be reduced by the amount of repayment expected during the fiscal year to produce "carryover balance available for appropriation." This adjustment is made on the "certificate of the total amount from all sources available for expenditures, and balances" filed with the County Budget Commission pursuant to Section 5705.36 of the Ohio Rev. Code.

Conversion to a Transfer

If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer (repayment is no longer expected) the following procedures should be followed retroactively:

- The necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas (see ORC 5705.14, 5705.15 and 5705.16);
- The transfer should be formally recorded on the records of the subdivision; and
- The entries recording the cash advance should be reversed.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Presence of Effective Accounting System • Independent Inspection/Comparisons of Advances and Source Documentation • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to		

employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

If advance transactions occurred, review authorizing legislation and accounting records. Determine whether the advance transactions were in amounts and between accounting funds approved in the authorizing legislation.

Based on knowledge of the entity's operations and review of levy legislation or other appropriate documents, determine whether the creditor fund's purpose was reasonably consistent with the debtor fund's purpose.

Determine whether prior period advances are outstanding. If advances have not been repaid within a reasonable period or within the period specified (if any) in the authorizing legislation, determine through inquiry of appropriate client officials when the advance will be repaid.

If the client no longer intends for the advance to be repaid or repayment is unlikely, recommend that the client take appropriate steps to convert the advance to a transfer following the above procedures.

If advances have been converted to transfers, determine whether the transfer requirements summarized in Ohio Compliance Supplement Section 1-21 have been complied with retroactively.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

1-23 Compliance Requirement:

- Ohio Rev. Code Section 5705.13(A) - Reserve balance accounts and funds;
- Ohio Rev. Code Section 5705.13(B) – A special revenue fund may be established to accumulate cash for severance payments or salaries when the number of pay periods exceeds the usual and customary number for a year;
- Ohio Rev. Code Section 5705.13(C) – capital projects fund(s) may be established to accumulate resources to acquire, construct, or improve fixed assets.

➢ Ohio Rev. Code § 5705.13(A) allows a taxing authority of a subdivision to establish, by resolution, a reserve balance account[59] for each of the three following purposes:

1. Budget stabilization: may be created in the general fund or in any special fund used for operating purposes. The ~~aggregate~~ amount reserved in the account in any fiscal year must not exceed 5% of the fund's revenue for the preceding fiscal year. The reserve balance is excluded from the unencumbered balance when certifying available balances at year-end. The reserve for budget stabilization may be reduced or eliminated at any time by the taxing authority.

2. Self-insurance program: may be created in the general fund or in the internal service fund established to account for the operation of the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.

3. Retrospective Ratings Plan for Workers' Compensation: may be created in the general fund or in the internal service fund established to account for the program. The amount to be reserved must be based on actuarial principles and the taxing authority may rescind the reserve balance account at any time.

➢ Ohio Rev. Code § 5705.13(B) allows a taxing authority to establish a special revenue fund to accumulate cash to pay accumulated leave, or for paying salaries when the number of pay periods exceeds the usual and customary number for a year. This leave includes payments for accumulated sick leave and vacation leave, or for payments in lieu of taking compensatory time off, upon the termination of employment or retirement. Money may be transferred to this fund from any fund from which the termination or salary payments could lawfully be made. The reserve must be established by resolution or ordinance and the taxing authority may rescind the fund at any time with the accumulated resources being returned to the fund from which they came. Amounts accumulated in this fund should be reasonable based on the taxing authority's estimated liability for benefits.

➢ Ohio Rev. Code § 5705.13(C) provides that a taxing authority may create, by resolution, one or more capital projects funds[60] to accumulate resources for the acquisition, construction, or

[59] ORC Section 5705.13 refers to these accounts as "reserve" accounts. However, for financial reporting, accounts established under ORC Section 5705.13(A) should be reported as ~~*designated*~~ *committed, assigned, or restricted* fund balance as appropriate under the circumstances described in GASB 54 rather than *reserved*, because these accounts are established at the governing body's discretion (NCGAS1 par. 117-122). Entity wide statements should report these as part of *unrestricted* net assets.

[60] Similar to the preceding note, governments should report these amounts as ~~*designated*~~ *committed, assigned, or restricted* fund balance as appropriate under the circumstances described in GASB 54 in governmental fund statements. Entity wide statements should report this equity as part of *unrestricted net assets,* because the restrictions are not externally imposed.

improvement of fixed assets, including motor vehicles. Each fund must be created by ordinance or resolution. The resolution or ordinance must identify the asset(s) to be acquired, the amount needed to be accumulated, the period over which the amount will be accumulated (with a limit of ten years from the date of the resolution or ordinance), and the source of the resources. Despite ORC 5705.14 through .16, money may be transferred to the capital projects fund from any other fund that could acquire, construct or improve the fixed assets. If a contract for the fixed asset(s) has not been entered into before the ten-year period expires, the money is returned to the fund from which it was transferred or that was originally intended to receive it. The taxing authority may rescind a capital projects fund at any time with the accumulated resources being returned to the fund from which they came. Auditor of State approval is not required for this transfer.

- Ohio Rev. Code § 5705.132 permits *townships* to establish by resolution reserve balance accounts in addition to those described above to accumulate currently available resources for any purpose for which the board of township trustees may lawfully expend township money.[61] The resolution must state the:
  - Specific purpose for which a reserve balance account is established,
  - Fund within which it is established,
  - Fund or account from which money will be transferred to it,
  - Number of years it will exist [there is a five year cap on how long the account may be in existence]
  - Maximum total amount of money that may be credited to it during its existence; and
  - Maximum amount of money to be credited to it each fiscal year it exists

  Reserve balance accounts established under this authority may exist for not more than five years beginning with the year in which money is first set aside. In addition, money in such an account can be expended only for the purpose for which the account is established.

  Money may be transferred to these new reserve balance accounts from another township fund or account only if money in that fund or account may lawfully be expended for the purpose for which the new reserve balance account is created. Townships may create more than one reserve balance account under this section. However, the total amount of money credited to *all* of the reserve balance accounts established under this section cannot exceed, ***at any time in any fiscal year***, 5% of the total of the township's revenue from all sources for the preceding fiscal year, plus any unencumbered balances carried over to the current fiscal year from the preceding fiscal year. There are three important aspects of this restriction. First, be aware that it is based on revenues only. Other financing sources such as debt proceeds or transfers will not count toward the calculation of the limitation.[62] Second, recognize that this language has the effect of allowing the same dollars to be counted twice in calculating the limitations, first when they were received in the prior year and second to the extent they are carried over as unencumbered into the current year. Finally, notice that the amount of the limitation changes each year because it is based on the preceding year's revenues.

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[61] Similar to reserve balance accounts created under existing law, reserves created under this section are not considered as an unencumbered balance or revenue of the township for purposes of annual budget reviews by the county budget commission. They are also not considered as an unencumbered balance or revenue for purposes of apportioning the county's undivided local government fund and the undivided local government revenue assistance fund.

[62] Page IV-5 of the December 2007 Ohio Township Manual lists all *Other Financing Sources*.

If a township does not expect to spend the money set-aside in a reserve balance account in the upcoming year, the money in the reserve balance account need not be included in the certificate of year-end balances filed with the budget commission at the beginning of the year. If the township plans to spend the money that has been set aside, the township should include the money in the certificate of year-end balances. The money will then be included in the amended certificate of estimated resources and may be appropriated and spent during the year. Appropriations should be made to an account that reflects the purpose of the reserve. Appropriations should not be made to, nor expenditures made from, a reserve balance account. For example, assume in 2006 a township created a reserve balance account not to exceed $40,000 in the motor vehicle license tax fund to purchase a new mower. $10,000 is set aside each year from 2006 through 2009. In 2010, the $40,000 is included in the certificate of year-end balances and appears as part of the amended certificate. The money is appropriated in the capital outlay account in the motor vehicle license tax fund and the new mower is purchased.[63]

Upon the expiration or rescission of a reserve balance account created under this section, any unexpended balance in the reserve account must be transferred to the fund or account from which money in the account was originally transferred. If money was transferred from multiple funds or accounts, a pro rata share of the unexpended balance must be transferred to each of them proportionate to the amount originally transferred from that fund or account.

Refer to AOS Bulletin 2007-002 for additional information regarding the new authority for townships to create reserve balance accounts.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

[63] For the purpose of setting aside money for the purchase of a capital asset, it may be easier and more convenient to create a separate capital projects fund under the provisions of Ohio Rev. Code Section 5705.13.

Suggested Audit Procedures - Compliance (Substantive) Tests:

If reserve balance accounts have been established:

- Determine through vouching, review of minutes, and inspection of accounting ledgers and authorizing legislation, whether reserve accounts were only established in the general fund, special fund used for operating purposes or appropriate internal service fund and for permitted purposes (budget stabilization, self-insurance program, or retrospective ratings program for worker's compensation).

- Recalculate reserve percentages and inspect worksheets and accounting ledgers to determine whether the ~~aggregate~~ amount reserved exceeded the 5 % cap (budget stabilization account). ~~(Testing should not be limited to year end.)~~

- For self-insurance and worker's compensation reserve accounts, compare amounts reserved to estimates received from the entity's actuary.

If a "severance payout reserve" or "capital improvement reserve" fund has been established:

- Review minutes, ordinances and resolutions to determine whether the fund has been established by resolution or ordinance.

- If a capital improvement reserve fund has been established, review the authorizing legislation to determine whether the assets; amount required; accumulation period (not to exceed ten years); and source of funding have been identified.

- Select a representative number of disbursement transactions from the fund. Through vouching, determine whether the transactions were only for related activities as indicated above, and in accordance with the purpose stated in the authorizing legislation.

- Trace a representative number of transfers to the reserve fund and determine whether the transfers were from funds permitted to make the disbursements for which the reserve fund was established.

- Determine through inspection of worksheets, ledgers and other such documents, whether records reasonably provide for the return of accumulated resources, to the fund from which they were originally transferred or the fund intended to receive them (If records do not reasonably provide for the proper return of resources, this situation would generally result in a recommendation; a noncompliance citation should not be made).

If the reserve fund was rescinded or if the ten-year period has elapsed prior to entering into a contract (capital improvement reserve fund), determine through inspection of worksheets and accounting ledgers whether the accumulated resources were returned to the fund from which they were originally transferred or the fund intended to receive them.

If a township has established an additional reserve balance account(s), determine whether the necessary resolution, stating the purpose of the reserve account, has been adopted by the board of trustees.

- Review monies transferred to the new township reserve balance accounts from other township funds or accounts and determine whether those monies may lawfully be expended for the purpose for which the new reserve balance account was created.
- Determine whether the total amount of money credited to *all* of the reserve balance accounts established under Ohio Rev. Code § 5705.132 exceeded~~, ***at any time in any fiscal year***, ~~5% of the total of the township's revenue from all sources for the preceding fiscal year and any unencumbered balances carried over to the current fiscal year from the preceding fiscal year.
- Scan expenditures in the additional reserve accounts and determine whether amounts were expended only for the purpose for which the account(s) was established.
- Determine that none of the additional reserve balance accounts have existed for more than five years.
- Upon the expiration or rescission of a reserve balance account created under Ohio Rev. Code § 5705.132, determine whether any remaining unexpended balance in the reserve account was transferred to the fund or account from which money in the account was originally transferred. If not, consider a finding for adjustment.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Section E: Additional County Requirements

1-24 Compliance Requirement: Ohio Rev. Code Section 5101.144 requires that each county deposit all funds its public children services agency receives, regardless of source, into a special fund in the county treasury known as the children services fund.

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

During revenue tests, trace a representative number of children services agency receipts to the fund.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Section F: Additional County Hospital Requirement

The following section applies only to county hospitals:

1-25 Compliance Requirement: Ohio Rev. Code Section 339.06 - Organization of board of trustees; funds; administrator. **(County Hospitals)**

Summary of Requirements: The board of county hospital trustees must submit its proposed budget for the next fiscal year to the board of county commissioners for approval, by November 1.

If hospital tax levies, or the amount appropriated to the county hospital by the county commissioners in the annual appropriation measure for the county for the fiscal year, differ from the amount shown in the approved budget, the board of county commissioners may require the board of county hospital trustees to revise the hospital budget accordingly. If so, the board of trustees is not allowed to spend those funds until its budget for that calendar year is submitted to and approved by the board of county commissioners [R.C. § 339.06(D)(4)].

After that, the monies may be disbursed by the board of county hospital trustees, consistent with the approved budget, on a voucher signed by signatories designated and approved by the board of county hospital trustees. [R.C. § 339.06(D)(5)].

In determining how the government ensures compliance, consider the following:	What control procedures address the compliance requirement?	W/P Ref.
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Inspect documentation indicating a proposed budget was submitted by November 1 to the board of county commissioners.

Scan ledgers or other documents for expenditures in excess of the approved budget. Inspect vouchers for signatures of those persons designated and approved by the board of trustees.

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

Section G: Additional College Requirements

The following section applies only to certain colleges (community colleges, state community colleges, and technical colleges; this does *not* include universities):

1-26 Compliance Requirement: Ohio Rev. Code Sections 3354.10(A), 3357.10, 3358.06, and 5705.41(D) - Treasurer's fiscal certificates.

Summary of Requirement: No orders or contracts of the boards of trustees of **community college** districts [R.C. § 3354.10(A)], **technical colleges** [R.C. § 3357.10(A)], and **state community colleges** [R.C. § 3358.06] involving the expenditure of money shall become effective until the treasurer certifies that funds are available.

In determining how the government ensures compliance, consider the following:	**What control procedures address the compliance requirement?**	**W/P Ref.**
• Policies and Procedures Manuals • Knowledge and Training of personnel • Tickler Files/Checklists • Legislative and Management Monitoring • Management's identification of changes in laws and regulations • Management's communication of changes in laws and regulations to employees		

Suggested Audit Procedures - Compliance (Substantive) Tests:

Search for material unrecorded liabilities and/or encumbrances. Refer to minutes and records immediately following the fiscal year cutoff date.

Compare the date of the fiscal certificates with invoice dates, noting whether or not the certificate date precedes the invoice date.

*(**NOTE:** This audit procedure can be part of expenditure tests.)*

Audit implications (adequacy of the system and controls, and the direct and material effects of non-compliance, effects on the audit opinions and/or footnote disclosures, significant deficiencies/material weaknesses, and management letter comments):

APPENDIX A

TRANSFERS AND ADVANCES

Transfers Defined

Questions sometimes arise about what constitutes a *transfer* as defined under Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16. Therefore, the AOS has developed this appendix to assist auditors in determining the proper accounting and legal noncompliance reporting treatment for transfers.

This guidance is non authoritative. It is the AOS's interpretation of Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 requirements. Where conflicts arise, AOS will defer to well-reasoned opinions of legal counsel.

Fund accounting segregates legally restricted resources. Therefore, transferring cash restricted for one purpose to a fund with a different restricted purpose potentially permits spending the transfer in violation of its restricted purpose. Ohio Rev. Code Sections 5705.14 - .16 attempt to prevent these violations.

Not all interfund transactions are *transfers* as defined above and, therefore, not all interfund transactions are subject to Ohio Rev. Code Sections 5705.14 - .16. *Cash transfers* are not defined in the Ohio Rev. Code. Therefore, auditors must rely on common-use definitions.

GASB Cod. 1800.102 defines transfers as ~~indicates transfers are~~ "flows of assets (such as ***cash*** or goods) without equivalent flows of assets in return and without a requirement for repayment." In other words, a transfer is a nonreciprocal (i.e. ***nonexchange transaction)*** from one fund to another. It might be useful to think of transfers as "gifts" from one fund to another.

Some Transactions That May Not Be Transfers

Intrafund Appropriation Transfers
Certain transactions do not qualify as transfers as contemplated by Ohio Rev. Code Sections 5705.14 - .16 and GASB Cod. 1800. For example, *intrafund* appropriation "transfers" are not transfers because there is no cash transaction. Intrafund appropriation "transfers" amend spending authority for one appropriation account and increase another account by the same amount, ***within the same fund***.

Interfund services provided and used
"Interfund services provided and used," as defined in GASB 1800.102, also do not qualify as transfers. Interfund services provided and used are considered by GASB to be ***exchange transactions,*** related to services "purchased and sold" between funds. Most payments to internal service funds, as described in GASB Cod. C50.130, are examples of interfund services provided and used.

Subdivisions should report these transactions as disbursements in the paying fund (i.e., charge the function, etc. benefiting from the exchange) and receipts in the fund providing the service or asset, etc. Subdivisions should not classify these as *transfers*; rather, they are often *charges for services*. These transactions are also not *transfers* under Ohio Rev. Code Sections 5705.14 - .16 because, ***presumably***, a fund is paying for a service that does not violate its restricted purpose.

However, if a payment does violate a restriction, then auditors should cite noncompliance *(subject to Findings for Adjustment as discussed in the OCS Introduction).*

Auditors should also be alert for payments classified as interfund services provided and used that far exceed a reasonable value of the transaction. These are not payments for services; they are gifts. Remember, a subdivision should base an insurance internal service fund charges for services (or *interfund premiums* or other reasonably-descriptive revenue caption) upon an actuarial measurement or other method C50 permits. These charges may include an additional amount for a ***reasonable***/prudent cushion. Subdivisions should record any charges *unreasonably* exceeding these amounts as *transfers*, subject to Ohio Rev. Code Sections 5705.14 - .16. Determining ***reasonable*** requires careful judgment. We normally should question only significant, unsupportable amounts.

Interfund Loans/Advances

GASB 1800.102 classifies "interfund loans" as exchange transactions, because they require repayment in an equal amount. However, auditors should note that a *reasonable* interest charge is permissible. Under GAAP, interfund loans are always fund liabilities, regardless of maturity. Also, AOS regulatory-basis entities should disclose interfund payables/receivables, if significant. The Ohio Rev. Code does not provide for interfund loans; therefore, the AOS issued Bulletin 97-03 (OCS 1-22), permitting *advances*. OCS 1-22 requires:

- "In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established"
- "~~The *reimbursement* from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement~~"
- The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor's fund resources
- So using advances properly avoids the primary concern regarding transfers. That is, an allowable advance should not violate restrictions on resource use.

AOS does not believe advances satisfying these requirements require court approval under Ohio Rev. Code Section 5705.16. *However, advances do require a formal resolution by the taxing authority*. On a cash basis, subdivisions should classify the cash payment/repayment as *advances out / in*, not *transfers*.

Under GASB Codification 1800.102, if repayment is not expected within a reasonable time, the interfund loans should be reduced and the amount that is not expected to be repaid should be reported as a *transfer* from the fund that made the loan to the fund that received the loan. Therefore, like any other receivable, auditors should consider whether interfund loans are properly valued (i.e. collectible). When reclassified as a *transfer*, said transfer(s) must satisfy all requirements included in Ohio Rev. Code Sections 5705.14 - .16 retroactively (appropriation, board resolution, court approval, etc.).

Note: Subdivisions can also sell securities between funds pursuant to Ohio Rev. Code Section 133. 29. This is commonly known as "manuscript debt." These sales and subsequent repayments are not "transfers". (Refer to Chapter 3 for additional compliance guidance and audit steps applicable to manuscript debt.)

Interfund Reimbursements

GASB Cod 1800.102 defines "Interfund Reimbursements" as "repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them." However, under the terms of Ohio Rev. Code Section 5705.10, such reimbursements would be illegal transfers *(subject to possible Finding for Adjustment)* ***if*** the fund initially paying violated restrictions on its resource use.

Also, GASB states that "reimbursements should not be displayed in the financial statements." This means that subdivisions should not use a ***reimbursement*** caption in a statement of activities / changes in fund balance, etc. It is generally preferable to ***advance*** money per Bulletin 97-03; however, advances may not always be possible. FEMA grants often require reimbursements, so they provide a useful reimbursement example subdivisions sometimes encounter. AOS Bulletin 98-013 describes other acceptable alternatives to treating these transactions as a ***reimbursement*** on the face of the financial statements. While this Bulletin is specific to FEMA grants, subdivisions can generally apply the guidance therein to any reimbursement transaction.

Transfers Clarification:

Allocation of Unrestricted Receipts to Restricted Funds
AOS recently deemed that once a government deposits unrestricted money into a fund with a restriction, it ***is*** restricted money subject to Ohio Rev. Code Sections 5705.14 - .16. For example, a subdivision may have enacted a resolution allocating unrestricted income taxes to a permanent improvement fund. Once the income tax fund receipts the income taxes collected under this authority, the income tax money is now restricted to permanent improvements.

Audit Adjustments
Audit adjustments, including Findings for Adjustment, adjust fund cash balances. However, even if subdivisions used the "transfers in/out" line-item to post audit adjustments into their financial statements, audit adjustments are not *transfers* subject to Ohio Rev. Code Sections 5705.14 - .16. Audit adjustments are corrections to restore cash to funds **permitted** to spend it. Therefore, audit adjustments should never result in cash being spent contrary to its restricted purpose.

Governing board approval
Ohio Rev. Code Section 5705.14 requires a resolution of the taxing authority passed by an affirmative vote of two-thirds of the members (except a simple majority is sufficient for transfers from the general fund). Sometimes, subdivisions fail to obtain the required approval prior to making transfers. Auditors should cite noncompliance *(subject to Findings for Adjustment as applicable)* for all unapproved transfers, ***even if the transfers were otherwise allowable under the transfer statutes.***

Ohio Rev. Code Sections 5705.14 - .16 do not provide for retroactive approval of transfers. Therefore, subdivisions cannot retroactively approve transfers after auditors bring them to their attention. Subdivisions may approve the transfers now and post them to their current financial statements. However, this will not eliminate the noncompliance citations and/or finding for adjustment issued for the period under audit.

Transfers to Debt Service Funds
Debt issued under the authority of Ohio Rev. Code Chapter 133 is required to be retired through a governmental Debt Service Fund type. Other types of debt may generally be retired within other fund types. *However, a separate account, special cost center, etc. should be used to separately track the sinking fund requirements*. Typically, it is preferable to retire the debt within the fund type that will be generating the revenues legally obligated to make the debt service payments.

For example, assume sewer fund debt covenant mandates a sewer debt service fund. Assume the covenant mandates periodic transfers from the sewer operating fund to the sewer debt service fund. These transfers are not subject to Ohio Rev. Code Sections 5705.14 - .16 because these transfers ***fulfill*** rather than ***violate*** restrictions on using the money. Therefore, auditors should not cite noncompliance for "transfers" to a debt service fund if this is an appropriate use of the money in the fund making the "transfer." Subdivisions should record these transactions as *transfers* in their financial statements and make the appropriate disclosures described below.

Transfer Disclosure Requirements
GASB 38 ¶ 15 requires the following disclosures for *transfers*:

- A general description of the principal purposes of interfund transfers
- The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
  - Do not occur on a routine basis—for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant.
  - Are inconsistent with the activities of the fund making the transfer—for example, a transfer from a sewer operating fund to the debt service fund *(because the subdivision mistakenly believed it was required to establish a separate governmental debt service fund to retire the non-Chapter 133, sewer-related debt)*.

APPENDIX B

DIRECT CHARGES
(i.e. payments not requiring fiscal officer certification / encumbering)

The AOS interprets ORC 5705.41 and 5705.46[64] to authorize direct charges (certification/encumbering under 5705.41(D)) is not required).

Per 5705.41(D)(3) , "Contract" as used in this section excludes current payrolls of regular employees and officers. Therefore, the following payroll-related costs do not require certification:

- Salaries
- Employers' Retirement Contributions
  - Ohio Public Employees Retirement System
  - Social Security
  - Medicare
  - Volunteer Firemen's Dependents Fund
  - Ohio Police and Fire Pension Fund
  - Other Employer's Retirement Contributions
- Employee Fringe Benefits
  - Workers' Compensation
  - Unemployment Compensation

The following items do not involve a contract, therefore, do not require certification:

- Tax Collection Fees – Expenses and fees as deducted by the county auditor, county treasurer and the state department of taxation for the collection and administration of taxes including advertising for delinquent taxes (Updated definition to include advertising for delinquent taxes)
- Taxes and Assessments – General property taxes paid on newly acquired real estate and assessments paid on real property. Also included are state sales taxes collected on items sold of a taxable nature and later paid to the state.
- Election Expenses – Election expenses deducted by the county auditor
- Deposits Refunded – Utility Deposits Refunded
- Deposits Applied – Utility Deposits Applied

The following items require board action, therefore, do not require certification:

- Transfers
- Advances

Note: *Advertising* and *payments to another political subdivision* require a certification because direct charges are not allowed.

Advertising – Includes expenses for publication of official notes, ads, legal advertising in newspapers and periodicals.

[64] AOS interprets payroll to include Salaries, Employer's Retirement Contributions, Worker's Compensation, and Unemployment Compensation.

Payment to Another Political Subdivision – Payments made to another political subdivision for contracted services provided to the township, such as fire protection, county health fees, police services, EMS, garbage and refuse.